An institutionalist analysis of foreign investment in Poland: Wroclaw's second great transformation

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This is dedicated to my daughters, Kate and Shan, my Mum, Dad and sister Karen.

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ABSTRACT

This thesis examines the reintegration of localities in Poland through foreign investment in general and transnational corporations, in particular. The focus of the research is on the relationships and interplay between incoming foreign firms, the corporate strategy of individual companies and the role of institutions and local actors. The region which is the focus of the empirical work is Wroclaw, which is located in the South West of Poland, and regarded as a relatively successful example of transformation.

The analytical framework is radical institutionalist in emphasising the socially and politically embedded nature of economic behaviour and the existence of differentiated interests and power. Four dimension of embeddedness, structural, cultural, cognitive and institutional are used to examine how far and in what ways recent changes in the corporate strategy of firms have influenced the nature of firms' quantitative and qualitative linkages in the locality.

The main conclusions are that although the multiplier effects through supplier linkages were modest, a process of cumulative causation was evident through the demonstration effect of incoming firms and the stimulation of a range of business services. Ambiguous and embryonic structures of local governance in Wroclaw meant that foreign investors were significant contributors to the building of formal institutions. The research findings emphasise the use of enabling myths by foreign investors in attempting to instill a set of values, beliefs and expectations viewed to be congruent with a market economy, in both the locality and the workplace, while displacing or circumventing what were regarded as the inappropriate institutional legacies of the previous regime.

The overall conclusion is that there needs to be a radical break with the free market status quo and that change can only come from below in the workplaces and local communities through participatory systems of local governance.

CONTENTS

ABBREVIATIONS

AWS	Akcja Wyborcza Solidarnosc (centre right coalition)
CEE	Central and Eastern Europe
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HQ	Headquarters
HRM	Human Resource Management
IMF	International Monetary Fund
LFRs	Less Favoured Regions
NGOS	Non Governmental Organisations
NIAO	New Institutionalism in Organisational Analysis
NICs	Newly Industrialising Countries
NIFs	National Investment Funds
OECD	Organisation of Economic Cooperation and Development
OPZZ	Ogolnopolskie Porozumienie Zwiazkow Zawadowych (All Poland Alliance of Trade Unions)
PHARE	Pologne/Hongrie: Assistance a la Restructuration Economique
PLN	New Polish zloty (current exchange rate is £1 = 4 zloty)
R&D	Research and Development
SEZs	Special Economic Zones
SMEs	Small and Medium Enterprises
SOEs	State Owned Enterprises
TEMPUS	Trans European Mobility Programme for University Studies
TNCs	Transnational Corporations
USD	US Dollars
WARR	Wroclawia Agencja Rozowoja Regionalego (Wroclaw Development Agency)
WTO	World Trade Organisation

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PROLOGUE

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On my first visit to Krakow, Poland in April 1993 the legacy of the sclerotic and chaotic communist planned economy was still very much in evidence. As we arrived at the ramshackle railway station we could see the empty concrete shell of a high rise building on the edge of the town. We were told that it had been like this for ten years and had been left as a testament to the many prestigious projects that had run out of finance or raw materials. In the city centre many of the fine medieval buildings showed signs of decades of neglect, and other buildings were black with the pollution from the nearby steelworks.

The research undertaken between 1993 and 1995 in collaboration with colleagues from the Krakow Academy of Economics focused on three workplaces. Rather than quickly adapting to the new conditions through the market mechanism, as predicted by the vast army of advisors who had descended on Warsaw, these firms faced a variety of difficulties in responding to international competition. The giant Huta Sendzhimira steelworks sprawled across five square miles on the edge of the city in the town of Nowa Huta. It had been a gift from Stalin in 1948 to inject an industrial working class into a city, which contained nationally renowned universities and was therefore considered to be over endowed with potential dissenters. In its heyday in the early 1970s the steelworks employed 40,000 people, however by 1993 this number had fallen to 20,000. Processes used were obsolete and environmentally disastrous and the steel products were poor quality, and significantly lagging behind those of western competitors. There had been many visits by Western European steel producers between 1991 and 1993, but it was suggested that this was more to do with assessing the potential competition rather than serious consideration of making an investment. Restructuring this workplace would have a profound effect on the population of Nowa Huta.

Whereas the steelworks was a bastion of male employment, the workforce of the Wawel chocolate factory was mainly women. By January 1994 food processing had attracted the second highest amount of foreign investment. Such was the scramble for Polish chocolate firms that Nestle had snatched the Goplana confectionery factory in Poznan from other foreign competitors the day before the deal was due to be signed. I was able to confirm that senior managers of Nestle had been to the factory with a megaphone and leaflets to persuade workers and incumbent managers that they had the better deal to offer. Wawel, however, had rejected the overtures of foreign transnational corporations (TNCs) in favour of taking the worker-management route to private ownership. The factory site was a run down building in the middle of the town. The quality of the chocolate was good but the machinery was old and unreliable and the production process extremely labour intensive. Further the lack of management experience, particularly in marketing, raised questions about the survival of the firm, in the light of foreign competitors such as Cadbury who had built a greenfield site in the city of Wroclaw.

The third workplace was the ZPT tobacco factory, the largest cigarette producer in Poland. In contrast to the steelworks and the chocolate factory there was evidence of investment in new machinery as they increased their production of Marlborough cigarettes under licence from the giant US TNC, Philip Morris. The experience of Spain and Portugal was that the liberalisation of the tobacco sector had led to US firms dominating the market as domestic firms either closed or were relegated to the periphery, and a similar process appeared to underway in Poland.

The experience of these three workplaces suggested that foreign investment and TNCs were going to be a central force in shaping the transformation process and organisational change, either through changes in ownership or by changing the nature of competition in particular sectors. The relationship between foreign investment, and the reintegration of localities into the international economy was to become the central focus of my thesis started in 1996, although the regional focus moved from Krakow in the South East of Poland to Wroclaw in the West.

In April 2000 four years after my first fifty minute internal flight from Warsaw, I made my final research visit to Wroclaw. As the plane started its descent the dramatic impact of foreign investment on the landscape was clearly evident. To the North of the city we flew over the extension to the foreign owned bus and truck plant that was trebling in size and still under construction. Its major supplier of metal panels was also building a new factory on an adjacent site. To the West, and just outside the city, two large greenfield investments could be clearly seen, one a British confectionery manufacturer, the other a huge American transnational producing glucose. Both had been persuaded to locate there by a proactive local mayor who had been given an accolade in the Financial Times as an example of the new entrepreneur. Adjacent to these shiny edifices, and across the newly constructed motorway to Germany, was an out of town shopping Mecca, with a British hypermarket, Dutch discount cash and carry, a giant Swedish furniture store and a German DIY centre. As we flew over the city it was possible to see the medieval cathedral nestling between the two rivers on the small island of Ostrow Tumski, and the magnificent university building dating back to the seventeenth century. The *rynek* (town square) was also clearly visible as were the numerous other medieval churches. On the edge of the city and to the North East, two of the key industrial areas appeared as grey and sprawling blots. Both housed nationally known previous State Owned Enterprises that were now undergoing profound processes of restructuring as a result of foreign investments. All of these major workplaces had been occupied by their workers in 1981 as part of the political protest that swept the country. The factories had been attacked by tanks and the trade union leaders arrested and imprisoned.

As the plane landed at 9.00 in the morning the airport looked very different from when I had first arrived in 1996. Gone was the austere concrete building with its large fifties deco sign. Gone also was the detritus of redundant military planes and equipment that had littered the edge of the airfield. Instead there was a modern and fully equipped terminal that was handling increasing numbers of domestic and international flights. In the baggage hall large adverts for Cadbury, one of the first investors in Wroclaw, and a foreign consultancy firm welcomed me to Wroclaw. Outside there were large hoardings also advertising the presence and apparent predominance of foreign firms in the locality.

The road from the airport passed a large plot of well tended *dzialki* (allotments), that served more to provide a retreat from the cramped and dismal housing than their intended practical purpose of growing food. The huge 1960s monolithic tower blocs on the edge of town showed few signs of refurbishment and battered old cars were strewn on the rough land that served as a car park. Neither did the beneficial effects of the fastest growing economy in Central and Eastern Europe seem to have reached the old women selling scraps of second hand clothes at the edge of the road. The hoardings along the route into town were dominated by adverts for four giant foreign food retailers, all of whom had arrived in the last two years, competing fiercely on the basis of the prices of their goods.

As we entered the city it was clear that there had been massive investment in the infrastructure. This was much needed after several decades of complete neglect and compounded by the severe floods in 1997 that left much of the city under several feet of water. The Stalinist folly of a central station, Wroclaw Glowny, with its gothic mock castle facade and crenellations had been restored to its former glory. In the early days the free market had been synonymous with the flea market, and the station had acted as a magnet for a frenzy of entrepreneurial activity, but the number of traders had now been rationalised to a much smaller handful of licensed and legitimate sellers. The pavements, roads and tramlines, previously in a state of disrepair, had now been ripped up and relaid. We passed several department stores that in the last two years had been completely overhauled by foreign buyers and now charged western prices. I noticed a pair of trainers for 350 zloty – two weeks wages for a nurse. The large scale renovations to the crumbling exterior of the huge and imposing opera house were still underway and it was difficult to discern much progress from my last visit, six months before.

Opposite what had once been an enormous Prussian garrison and were now the law courts, was the Hotel Monopol, which had been my home on five visits. It is a large and imposing *fin de siecle* building, which counted Hitler, Marlene Dietrich, Picasso and Paul Robeson among its (in)famous guests. It was still a state owned organisation, part of the Polorbis chain, and had remained relatively immune from the dreary homogeneity of the ever growing number of international hotels by retaining its original character with it glorious sweeping staircases with wrought iron banisters, and art nouveau light fittings. The cavernous dining room with bordello velvet drapes and grotesque 1970s glass table decoration was by and large devoid of guests, only frequented by those who were too tired or infirm to go elsewhere. It can only be a matter of time until the décor, service and accommodation is changed to meet international expectations and the hotel loses its appealing quirkiness.

As I walked the short distance to the *rynek* to get an early lunch I passed the tourist information service. I was reminded that Wroclaw was no stranger to change and if anything its second great transformation was much less dramatic than its first. Formerly Breslau, the city had been razed to the ground at the end of World War II and when it was ceded to Poland, and experienced one of the largest depopulations in European history as its German inhabitants left or were expelled. The city was rebuilt by Poles who arrived with their institutions (such as the university) from Lvov, or were driven by poverty from the small towns and villages of central Poland. It was literally a *tabula rasa* with a mixture of people and institutions on which it was much easier to impose a Stalinist blueprint after 1948 than other parts of Poland.

Over the last three years the *rynek* had changed beyond all recognition. The tall elegant eighteenth century town houses that lined the square had been beautifully restored. Although the styles of the building were similar, each was painted a different colour and renovated individually. Some were relatively simple, others had ornate features such as *trompe l'oeil.* The *rathaus* (town hall) dated back to fifteenth century and was the centrepiece of the *rynek* and the symbol of the city for the last seven centuries. The ugly architecture of the 1970s had been eliminated with the exception of the modernist Bank Zachoni building on the corner. The *rynek* was the focal point of the city with a vibrant café culture and high class, high priced bijou shops selling mementos or jewellery to the mainly German tourists, who had come to visit or revisit their roots. You could eat and drink in the ubiquitous (but discrete) Macdonalds or Pizza Hut restaurants or in one of the myriad of restaurants, coffee houses or beer bars that had sprung up on the edge of the rynek or the small streets around it. I chose the vegetarian restaurant that was a café serving solid Polish food, mainly to students and pensioners. At weekends or on summer evenings the *rynek* would be packed with people on the pavement bars or simply promenading round the square. Drinking Polish beer and surrounded by large numbers of local people it would be very easy to think that the jury had unequivocally returned a guilty verdict on the dismal and repressive communist regime and vindicated the dynamic transformative powers of capitalism and market forces.

At 1.00 o'clock I set off on to do interviews in two towns that formed a sharp and sobering contrast with Wroclaw city. Olesnica, the second largest town in the region showed few signs of the new times. After driving around the town it was difficult to discern any changes to the physical environment. Ugly and run down apartments dominated the town centre. The older buildings far from having been restored, were crumbling with huge holes in the rendering exposing large sections of poorly pointed bricks. The shops were drab, the displays functional and uninspiring and the goods poor quality and cheap. The pavements were uneven and dangerous and the roads full of potholes. The people were visibly less affluent and lacked the chic of those who worked in the municipality. One of the main employers, a shoe factory, had shut with a loss of five thousand jobs in 1998. It stood derelict next to the only significant foreign investor - a western car components manufacturer.

The next interview was at 3.30 in Brzeg Dolny – 'a one horse town'. The physical environment was grim and heavily polluted and employment was completely dominated by one giant chemical works that had produced Kyklon B during the Second World War. Decisions about its restructuring and future lie outside of the region and to some extent outside of the country. It is a major asset held by National Investment Fund Number 13, a holding company run by W.S Atkins (UK consultancy) and a Polish bank. In contrast to the sprawling buildings and dereliction of parts of the chemical firm, across the road stood two citadels of British foreign investment; one firm produces industrial gases and the other foam for furniture. These represent the only diversification of the economy and the 200 jobs they had created would provide no cushion in the face of a large reduction of employment in the State Owned Enterprise. Physically the town is isolated and not on any of the main arterial routes, with accessibility further compounded by poor public transport and low levels of car ownership. The centre of the town comprised a cluster of high rise flats with a handful of shops. The sky turned grey and it began to snow. This place felt like as if it was on the edge of the world.

The last meeting was early evening with the Solidarity representative from the foreign owned truck and bus factory. After reassuring him I was not a journalist he explained that they were in dispute with management over wages specifically, and a lack of consultation generally, ironic in a firm that professed to be people centred and was renowned for its worker friendly work organisation. As we walked back to the taxi he talked about how people were disarmed by the vagaries of the market and said that he would give their factory up to fifteen years before it moved elsewhere. He echoed the sentiment that I had heard over and over from workers and their representatives which was that they welcomed the dynamism of the market and its potential benefits but the other side of the coin was that the collectivity, certainty and security of the old system had gone.

The transformative capacity of capitalism was evident both in the increasing physical presence of foreign investment and the rising standards of living, experienced by some sections of the population at least, manifest in Wroclaw city. However, beyond the international hotels, and beyond the tourist trails it was abundantly clear that the gains of the transformation process were highly differentiated, even within a region that was considered to be relatively successful. The loss of jobs in State Owned Enterprises as they closed or restructured, the battles (overt and covert) over employments levels, social provision and conditions of work were hidden from the gaze and eviscerated from the accounts of those that celebrated market driven transformation as a win-win game.

In the following pages this study aims to explore and provide an analytical framework for understanding the role of foreign investment in explaining the contradictions and unevenness of transformation described in the foregoing account.

CHAPTER ONE

INTRODUCTION

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1.1 CAPITALIST TRIUMPHALISM

1.1.1 Background to research

The collapse of the economies of Central and Eastern Europe (CEE) in the late 1980s coupled with popular revolt released people from the politically repressive regimes of Stalinism. Economically two decades of piecemeal reforms had failed to rescue these economies from the stagnation and crisis that had resulted in an ever increasing gap between living standards in Western market economies and the planned economies of CEE. After the fall of the Berlin Wall the early 1990s was dominated by capitalist triumphalism, which drew on neoliberal assumptions to suggest that the transformation process was one where market forces could be used to shift both the material and ideological trajectories of post-communist economies. However, in policy terms this process unfolded in different ways between economies. In Poland in January 1990 transformation took the form of 'shock therapy', which comprised an overnight injection of macro stabilisation measures coupled with a far reaching programme of liberalisation, both deemed to be the only medicine possible for a sclerotic economy. While there was discussion in some quarters of a Marshall Aid type programme to reconstruct these economies such aid was not forthcoming (Mihalyi and Smolik, 1991; Haynes, 1992), and private capital in the form of foreign investment was accorded a central role in transforming post communist economies.

From a personal standpoint, a first visit to Krakow, Poland in 1993 as part of the TEMPUS[1] programme revealed that there was a significant difference between the rhetoric and reality of the march to the market. It was evident that flows of foreign investment were going to play a critical role in the transformation process, however, the uncritical prognostications of the neoliberal economists failed to capture the complexities and differential impacts of the arrival of foreign firms. It became clear that foreign investment was not unequivocally welcomed by Polish managers and workers, as some firms expressed a preference for a Polish brand of capitalism rather than one driven by transnational corporations (TNCs). This was reflected in Wawel, a nationally renowned chocolate company in the region, rejecting overtures by large foreign confectionery firms and taking the worker-management buyout route to privatisation. In 1993 we held an interview with trade unionists from the ZPT Tobacco Company, where we were quizzed about the potential impacts of the proposed buyout by the giant Philip Morris TNC and the implications for jobs and working conditions. A year later once the investment had taken place the outcomes were mixed, and although wages rose to twenty per cent above the local average, the pace of and control over work intensified and social provision was reduced. Firms in some sectors (confectionery and tobacco) were regarded as the jewels in the crown and were snapped up quickly, while other firms and particularly those in heavy industry, proved to be much less attractive to foreign investors.

In Krakow incoming foreign investment was accompanied by a plethora of institutions such as bilateral aid organisations, quangos and consultancies which flooded in to provide panaceas for restructuring. The Huta Sendzhimira steelworks had attracted so much advice from the West that after one visit in 1994 we were summoned to a meeting by the Department of Employment who were trying to rationalise the bewildering influx of advisors, many of whom were UK based.

Research into these three workplaces, the ZPT Tobacco company, the Wawel chocolate factory and the Huta Sendzhimira steel plant in the Krakow region, (Hardy and Rainnie, 1996) provided the stimulus for this study. The overall conclusion was that the negotiation and impacts of foreign investment were both complex and contested, and that the transformation process was unfolding in ways that departed from the blueprints of policy advisors who had not set foot outside the Ministries in Warsaw. The broad aim of this thesis is to examine the process of the reintegration of localities in CEE with the international economy through foreign investment in general, and TNCs in particular. The focus of the research is on the relationships and interplay between incoming foreign firms, the corporate strategy of individual companies and the role of institutions and actors in cooperating with, mediating or contesting these processes.

These relationships raise important issues for the ongoing transformation process and restructuring of local economies in CEE. In the context of one of the world's most daring experiments, 'the construction of capitalism on the apparent deathbed of communism' (Smith, 1998:1) there has been no shortage of advice offered, with policy makers, academics, the business community and consultants falling over themselves to offer their particular recipe for transformation. Twelve years later what most people agree is that transformation has been much more costly, complex and uneven (Jackson, 1992; Gomulka, 1993; Portes, 1994; Haynes, 1996; Nuti, 1996) than was anticipated at the beginning of the process. While the social engineering of capitalism, underpinned by unfettered market forces, has dominated prescriptions at a national level, millions of pounds from the World Bank, EU and bilateral initiatives have provided the finance to search for an institutional fix at a local level. Sayer urges us to examine social innovation 'within processes of structuration, not as processes of contagion' (2000:152). These cautionary comments underline the necessity for providing an analytical framework and empirical research that goes beyond both the rhetoric of uncritical accounts of foreign investment and beyond advocating the transfer of models deemed to be successful in other institutional settings, which may be unsuitable for rebuilding the economies of and governance in regions in CEE.

1.1.2 The Wroclaw region

Rather than the study of a regional economy, the region in question should be regarded as a discrete area in which we can examine the complex interplay of foreign investment, locality, institutions and transformation. In this way an empirical examination of the social, institutional, cultural and political embeddedness of firms in localities facilitates a discussion about the role of foreign investment in determining the possibilities for, or constraints on development. Focusing on this spatial level, therefore, allows the study of communities in the context of real history, and in their cultural and political setting.

The region which is the focus of the empirical work is Wroclaw, which is located in Lower Silesia in the South West of Poland (Figure 1.1), and was one of 42 *voivodships* (approximately equivalent to English counties) [2]. In the context of marked regional disparities and uneven transformation (OECD, 1998) this area is regarded as relatively successful along with other areas of Poland such as Gdansk, Poznan and Krakow.

These regions have already demonstrated the highest potential for restructuring and relatively quick adaptation to the new conditions (Gorzelak, 1996 and 1998). It has been suggested that these regions are the leaders of Polish transformation with relatively low unemployment, a well educated labour force and developed infrastructure, and a concentration of Polish scientific and academic potential. In these regions privatisation processes are the most progressed, the inflow of foreign capital greatest and the growth of the service sector fastest. Gorzelak (1996) points to a central European boomerang delimited by the following areas: Gdansk-Poznan-Wroclaw-Prague-Brno-Bratislava/Vienna Budapest with the eastern wall becoming the dead end of Central Europe (OECD, 1998; Gartecki, 1998). The size, capital city status and cost of living ruled out Warsaw as the empirical focus of study and areas such as Krakow and Gdansk had already been the subject of scholarly activity by Western academics. Transformation in the Wroclaw region had not been the focus of studies by non-Polish scholars, and an initial interview in 1994 with local actors in the *voivodship* suggested a rich economic and institutional setting in which to examine foreign investment, institutions and locality.

Unlike the monoculture which dominated many Polish cities and towns, Wroclaw had a diverse economic structure. Under Stalinist economic planning in the 1950s and 1960s the economy had moved into the production of white goods, food processing and light engineering. Among the State Owned Enterprises (SOEs) which dominated the economic and physical landscape in 1990 were a number of firms regarded as national icons such as Pafawag (trains), Jelcz (trucks and buses) and Polar (white goods), whose privatisation was important politically and economically for the locality. The presence of an increasing number of flagship foreign investors such as Volvo, ABB and Cadbury also provided potential case study material to interrogate the corporate strategy of individual firms.

Figure 1.1 Map of Polish *voivodship* from 1975 to December 1998

Institutionally Wroclaw was a *tabula rasa* in 1948 onto which Stalinisation could be easily grafted. Formerly, Breslau, the local community was fragmented with a mosaic of traditions and cultures which had resulted from the largest depopulation and repopulation in European history following World War II. As a result of the Potsdam agreement, Breslau was ceded to Poland and the entire German population left or were expelled from the city. Renamed Wroclaw the city was repopulated and settled by people from the eastern part of Poland, which had been ceded to Ukraine. Some networks of local elites and institutions such as the university arrived from Lvov, while other settlers arrived from small towns and villages in central Poland driven by poverty and the draw of fresh opportunities in the 'new city'. In this sense we can understand the political and economic processes of restructuring as Wroclaw's 'second great transformation'.

The next section shows the intellectual journey from broad research aims, to a more specific focus and the evolution of an analytical framework in which to examine the emergent research questions.

1.2 PRELIMINARY INVESTIGATION AND PROJECT FORMULATION

The original aim of the study was to engage with three sets of claims that had been advanced to support optimistic accounts of foreign investment in CEE. The first set of arguments emanated from the conventional literature which pointed to foreign investment as 'the engine of growth' (Lipton and Sachs, 1990) in post-communist economies. This claim was premised on the argument that, not only would foreign investment bring a vital injection of capital to economies where domestic individual and institutional savings were low, but also that there would be an automatic transfer of technical and managerial know-how to firms. Further, neoliberal accounts point to the role of FDI in bringing about a competitive stimulus that would force all firms to restructure both their management and production activities according to some sort of Darwinian survival of the fittest process. In Poland, as in other countries, FDI has acquired hegemonic status in many regional and local development strategies (Hudson, 1995; Phelps, 1997).

A second set of arguments supporting the increased potential of FDI for local development related to claims that new corporate dynamics have led to the emergence of qualitatively new and essentially superior forms of manufacturing investment by TNCs in Less Developed Regions (Amin *et al*, 1994; Fynes and Ennis, 1997; Rugman and D'Cruz, 1997). Such quality investments were seen as the product of a number of organisational changes, which included increased autonomy for firms, a shift from defensive strategies related to cost to offensive strategies associated with asset and knowledge seeking in the locality and the need for aftercare. This is linked to the post-Fordist literature which suggested that the deverticalisation of large firms towards production characterised by 'flexible specialisation' had led to new and potentially more embedded reconfigurations of large firms and SMEs (Piore and Sabel, 1984; Sabel, 1988; Sabel, 1994).

Third, more recently attention has turned to the locality as an important source of competitive advantage for firms (Cooke and Morgan, 1994 and 1998; Scott, 1995), where firms could access external economies of scale through clustering (Porter, 1994; Krugman, 1995). Strong claims have been made that geographical proximity allows firms to access tacit knowledge from local networks that are central to competitive advantage in a global economy, where knowledge is increasingly ubiquitous and codified (Maskell and Malmberg, 1999a and 1999b). The concept of institutional thickness (Amin and Thrift, 1995a) is used to describe governance in localities where a coherent and consensual alliance of formal institutions cemented by informal codes of practice is present. In the context of this debate, such a constellation of institutions is held to offer better possibilities for attracting and retaining foreign investors. In the face of increasing tendencies towards globalisation reflected in the powerful networks of large corporations implementing foreign investment decisions that are not 'regionally friendly', Amin and Thrift suggest setting up 'networks of intermediate institutions in between the market and the state to act as a counter to such decisions' (1995c:50). According to Amin (1999), however, less favoured regions (LFRs) (into which category we could place the transforming regions of CEE) face a different challenge in (re)constructing the social capital in which the benefits of foreign investment could be harnessed. For these regions social capital has been damaged or distorted by two decades of crisis and economic decline, state dependency and elite domination, making the construction of an appropriate system of local governance a daunting challenge. Hausner *et al* (1997) describe the situation of regions in Poland in 1990 as one of a systemic vacuum (ibid:191) and sees the creation of a stable group of economic and political agents capable of driving the reconstruction of the economy and local governance as a precondition for local economic development. Put another way it has been argued that emerging market forces need to be embedded in appropriate non-market institutions, to resolve the contradiction of globalisation and development of localities in CEE (Jessop, 1995a).

With these concerns in mind initial interviews took place with managers and workers in thirteen flagship foreign investments and with a range of local actors and agents of change such as officials in the *voivodship*, development agencies, trade unions and consultants (see Appendices 1 and 2). The main conclusion to emerge was that the economic impact of firms had been modest in terms of employment and supply linkages, but their effect in terms of shifting collective understandings about economic behaviour within individual firms and the Wroclaw locality as a whole was substantial. Institutions that carried over from the previous regime in terms of expectations about business behaviour, managerial legacies, habits of employment, attitudes to redundancy and social provision were viewed by foreign investors as a particular way of thinking that needed to be circumvented or dismantled and replaced with a set of ideas and assumptions more appropriate to a market economy.

This preliminary field work led to a refining of the research focus to try and examine the wider role of foreign investment in the locality and the workplace by posing the following set of interrelated questions.

- To what extent have past legacies and institutions influenced the process of transformation in the locality and led to the development of hybrid organisational forms and recombined social capital?

- How far has foreign investment contributed to a process of cumulative causation in the locality, and to what extent has this gone beyond economic indicators to produce a shift in collective understandings and behaviour?

- Who have been the primary 'path shapers' and what are the key networks in which they are embedded?

- How far has the process of cumulative causation been one of cooperation or contestation between 'imported' and 'existing' institutions?

- To what extent does the corporate strategy of incoming foreign investors affect their economic and institutional embeddedness in the locality?

- How far do the cultural and cognitive processes embedded in the firm influence the extent and ways in which old institutions have been dismantled and new institutions instilled?

Taken together these questions extend and deepen the focus on the role of foreign investment from concerns with economic impacts that have dominated conventional approaches, to viewing incoming firms as 'institution benders' in the sense that they influence the nature of formal institutions in the wider locality, as well as shifting informal understandings about the conduct of economic behaviour within firms.

The fieldwork was divided into two parts. First, the research focused on thirteen flagship investments in the region to investigate why and how firms had arrived and the relationship between these factors and the impact of incoming foreign firms on the locality. These thirteen firms comprised all but two of the major foreign investments (outside of retailing) in Wroclaw in 2000, only Coca Cola (US) and Alfa Lavel (Sweden) declined to participate in the research. Interviews took place with at least one manager in the Wroclaw firms. To gain fuller answers to questions, where possible more than one interview took place in each firm. Interviews with senior managers from the parent company in the UK in the cases of BOC, Cadbury and Tesco were invaluable in giving a deeper understanding of the corporate strategy and internationalisation process from higher echelons of the organisation (see Appendix 2 for a complete list of interviewees). Interviews were based on the semi-structured schedule given in Appendix 3 and generally lasted between one and one and a half hours.

The second part of the fieldwork examined two case study firms, ABB and Volvo, which provided in-depth material to examine the way in which corporate culture and cognitive processes are used to help firms cross national boundaries and inculcate behaviours appropriate to a market economy. These firms were selected for two reasons. First, they provided contrasting examples of strategies for restructuring and operating in a new institutional setting. Second, in both organisations I was able to get access to all of the key senior and middle managers, as well as some limited access to trade union representatives and workers. Therefore while the first set of interviews in thirteen companies gave a broad overview of institution bending, the case study firms facilitated a deeper and richer investigation of these processes.

Alongside these two stages interviews were carried out in three large and politically and economically important former SOEs in the locality, where access was initially gained through the Solidarity trade union (see next section). This provided insights into the role of foreign investment, either by its presence or absence, in organisations that had a high profile in the locality. These firms were deeply embedded as providers of employment and welfare provision, and as the base of important networks of actors, the *nomenklatura* and trade unions, which had been powerful in the previous decade.

Interviews were also carried out with a wide range of agents of change in institutions such as local government, business organisations, trade unions, embassies and consultancies.

Carrying out research in economies in transformation in the mid to late 1990s was not always straightforward and posed some specific problems and issues which are discussed in the next section.

1.3 RESEARCHING ECONOMIES IN TRANSFORMATION

There were issues which needed to be addressed in carrying out international research (Oyen, 1990) in general, and in CEE in particular, relating to gaining access to and gathering empirical data from firms and institutions. Initial attempts to begin research in Krakow in 1993 were based on incorrect assumptions about gaining access to organisations which almost led to the project being aborted. Initial overtures in the form of phone calls to managers of SOEs had met with negative responses ranging from indifference to hostility. A second attempt to gain entry through Solidarity yielded unexpected positive results. Not only were we able to conduct long interviews with Solidarity and their members on the shop floor, but in addition they were able to organise interviews with managers who had previously refused. Our initial mistake in trying to gain access emanated from a complete lack of understanding about the passive function of management in SOEs and the specific role played by Solidarity and Workers Councils. The lessons of the years researching in Krakow were applied in Wroclaw. An overview of the main FDIs in the region along with contact names was provided by a firm of Western consultants. Interviews were then arranged either directly, or through the partner companies (many of which were in the UK). Solidarity opened up access to the two SOEs in which they were playing a key role in organisational restructuring. Access to regional officials and local actors were established through contacts made in the Wroclaw Academy of Economics and the University of Wroclaw. Previous experience suggested that most academics had a second (if not third) salaried job to supplement their low pay in higher education, and they were therefore often firmly linked into networks of firms and /or institutions of local governance.

One major issue was the question of translation. Many of the interviews with both English and Polish managers were carried out in English. My Polish is rudimentary and confined to a handful of pleasantries. This is a matter of regret and a shortcoming in the work, but resulted from carrying out fieldwork in several short intensive visits. Many people interviewed, particularly managers and academics, had a sound grasp of English. In interviews with Solidarity representatives, workers and officials in local government a translator was needed. More important than a grasp of the finer points of English a good translator needed some familiarity with the topics under discussion. The legacy of communism meant that language was in the process of being (re)constructed, particularly for whole range of practices that are connected with western management. For example, in past interviews in Krakow Human Resource Management had been understood by the interviewee as 'making people redundant' and total quality management as 'total control'. The translators were both excellent with a rich and nuanced grasp of English, however, I was aware that where long answers were given to questions an inevitable filtering took place, and information that may have seemed irrelevant discarded along the way.

Access to and interviews in Polish firms were hard work for two reasons. First, the culture of fear, suspicion and a lack of transparency were still very present and there was reluctance by all managers of SOEs to give interviews. Direct requests usually brought a negative response and I learned to use circuitous routes that involved calling in favours or using social and political contacts of other interviewees. A further reason for the reluctance of SOEs to give interviews was that they were usually in a precarious state as a result of one of three scenarios. If they had no foreign investment it was likely they were struggling and facing competition in the market and did not want to reveal how badly they were doing. Or if they were in the course of negotiating with a foreign investor the situation was politically sensitive and in the case of post foreign investment there were usually a raft of problems relating to restructuring or redundancies.

Doing research between 1996 and 1999 was also compounded by the fact that attitudes towards West Europeans had become somewhat jaundiced since my first visit in 1993. In the initial stages of transformation academics and consultants from the West were welcomed as people who had valuable skills and information to impart regarding 'jump starting' a market economy. However, the reputation of consultants was tarnished by the flood of firms and individuals who arrived for the rich pickings of contracts in the early 1990s, dispensing what was regarded as often useless, but always very expensive advice. Further, the vision that many Polish people held of transformation was one of a sort of Polish entrepreneurial small business capitalism. The reality of integration with the global economy has been perceived by some as big foreign companies taking over the 'jewels in the crown' (Sinn and Weidenreider, 1997). At a national level the fact that 60 per cent of formerly Polish banks are in the ownership of foreign banks has been extremely contentious. At a local level the invasion of foreign retailers over the last three years fighting for market share on Polish territory are seen as the culprits of the demise of small businesses. Disillusionment with the market is manifest in increased cynicism towards the economies of Western Europe, and has been reflected in, among other things, dwindling support for EU membership which fell from 75 per cent of the population in 1997 to just 50 per cent by January 2000.

The next section looks at the conceptual framework and analytical tools that underpin the study.

1.4 THEORETICAL FRAMEWORK: AN INSTITUTIONALIST APPROACH

The literature which offers the most coherent analytical framework for addressing these research questions could broadly be described as institutionalist. MacLeod (2001) sees the 'institutionalist turn' in economic geography as dating from the late 1970s onwards when the role of economic and political institutions were taken more seriously to explain regional decline and economic crisis. In the forefront of incorporating institutionalist insights into geography have been Amin (1999) and Amin and Thrift (1995a and 1995b), while others have drawn on institutionalist thinking in their analysis of the transformation process (Hausner *et al*, 1995; Smith, 1998; Smith and Swain, 1998).

Whereas institutionalism could be regarded as a 'turn' in economic geography this approach to economic change was immediately adopted by a significant body of academics concerned with understanding and analysing unfolding processes, as previously planned economies moved towards giving freer rein to market forces. In contrast to approaches based on neoliberal ideas, evolutionary and institutionalist approaches were able to offer an explanation as to why transformation processes had produced unexpected outcomes (Murrell, 1993; Chavance and Magnin, 1997), organisational hybridicity (Stark, 1996a and 1996b; Grabher and Stark, 1997) and slow change rather than jump starting a market economy by importing and implanting a preordained set of ingredients of a hypothetical capitalist economy (Pickel, 1992).

Although institutionalist analysis is high on the research agenda of the social sciences, there is no consensus about what is meant either by institutions or institutional analysis. These terms are now widely used, but with different conceptualisations (Hollingsworth, 2000). Neither do institutionalist approaches provide an all embracing theory or a single general model (Hodgson, 1998a), rather 'complex phenomena are approached with a limited number of common concepts and specific theoretical tools' (ibid: 168). While different synthesies may bend towards one branch of social science such as economics or sociology, institutionalism is inherently an interdisciplinary approach that draws from political economy, socioeconomics, organisational behaviour and psychology. This approach offered the possibility of analysis at different spatial levels.

> The institutionalist approach moves from general ideas concerning human agency, institutions, and the evolutionary nature of economic processes to specific ideas and theories, related to specific economic institututions of types of economy. Accordingly, there are multiple levels, and types, of analysis. Nevertheless, the different levels must be linked together. (ibid: 168)

Essentially the approach could be described as socioeconomic in that it emphasises reality outside of economic factors. What unites all versions of institutionalism is an eschewal of the assumptions and framework of neoliberal economics with its emphasis on equilibrium and the rationality of individual economic agents, as a way of explaining economic change and behaviour. Rather, economic behaviour is seen as being embedded in complex networks of relationships, and markets rather than being exogenous, are seen as being actively shaped by institutions. Emphasis is given to formal institutions in shaping economic change and history (Polanyi, 1944; Lazonick, 1991) and habits, routines and understandings are seen as central to shaping individual and collective attitudes (Veblen, 1899; Hodgson, 1988).

Therefore formal organisations and official institutions such as the legal system all serve to impose social coherence on human activity. Behavioural habits and institutional structures are mutually reinforcing in a process of cumulative causation (Myrdal, 1957). In reviewing Veblen's contribution, Hodgson (1998b) and Rutherford (1998) suggest that the evolutionary paradigm provides the basis for encapsulating historical continuity and change, and inertia and novelty, where learning is part of a transformative and reconstitutive process involving the creation of new habits and propensities. Nielsen *et al* (1995) cast the problem of structure and strategic action in the context of transformation in terms of path contingency and path shapers. Path contingency comprises past legacies and formal institutions which frame the repertoire of possibilities in which economic agents can actively shape social and economic activity.

The framework developed in this thesis aims to build on current institutionalist accounts (Hausner *et al,* 1995; Smith, 1998; Smith and Swain, 1998), and evolutionary accounts (Pickel, 1992; Murrell, 1993; Chavance and Magnin, 1997; Grabher and Stark; 1997) of transformation processes. However, the aim is to enrich and deepen these accounts by drawing on the American institutionalist literature which has its origins in the old institutionalism and can be traced back to Veblen (op.cit), and contemporary writers in the same tradition such as Dugger (1989 and 2000) and Waller (1989), and the new institutionalism in organisational analysis (NIOA) approach (Powell and DiMaggio, 1991; Zukin and DiMaggio, 1990). Taken together they add two important insights. The first addresses a criticism of 'soft institutionalism' levelled by MacLeod (2001) for 'telescoping onto non exploitative horizontal relationships of networking and reciprocity within particular localities' (ibid: 1153) by placing concerns regarding asymmetrical power as central to an analysis of institutions. Furthermore, these approaches are concerned with the normative content of informal institutions, which it is argued have to be understood in the context of perpetuating and stabilising a particular set of ideas to encourage the belief that certain social and economic arrangements are self evident. Following the rejection of a harmony of interests in favour of an account that has power at its apex, the thesis emphasises the role of foreign investment as institution bending. It is argued that TNCs have the capacity to instil a set of behaviours and beliefs through 'enabling myths' (Dugger, 2000) at all levels of spatial analysis from global down to the level of the individual workplace

The second lacuna addressed, is to provide the analytical tools for an elaboration of the nature of embeddedness of the firm. The NIOA approach invites a much richer account of the social and political structure of firms with their emphasis on organisational change and internal reorganisation. They suggest that while political economy approaches recognise the existence of differentiated stakeholders and fractured interests within firms, there is little discussion as to how firms achieve hegemony internally. They argue that the corporate strategy of firms is not homogenous but that they pursue a variety of mechanisms, both deliberate and implicit, which may meet with either contestation or co-operation. This will have important implications for the nature and form of embeddedness of firms in localities.

1.5 THE STRUCTURE OF THE THESIS

This chapter has identified the primary aim of the study as being to examine the relationship between foreign investment, institutions and locality from an institutionalist perspective. The empirical focus is the Wroclaw regional economy, regarded as a relatively well-progressed example of transformation in the context of Poland. Broadly, this perspective attempts to go beyond conventional accounts that have focused on fairly narrow economic impacts to look at the role of incoming firms in influencing formal institutions and collective understanding about economic behaviour in economies in transformation.

Chapter Two contextualises the debate about foreign investment and locality by reviewing the main theories that have been advanced to examine the transformation process of previously planned economies. It begins by examining theoretical approaches to transformation, which could broadly be described as constructivist in terms of advocating the transfer of economic models of development, in particular either idealised versions of market economies or the state led industrialisation models of South East Asia. The ways in which the transformation process has unfolded in ways that are uneven, unexpected and unintended, have left the door open for non-teleological accounts based on institutionalist or evolutionary thinking. It is argued that the main strength of the evolutionary perspective is that it is able to map how and why social change has been incremental and divergent as a result of deeply inherited economic and social relationships and historical legacies.

However, there are several shortcomings in this approach which centres on endogenous processes to the exclusion of the wider institutional, economic and political framework in which they unfold. Further, while this school of thought advocates the saliency of informal institutions in economic processes, asymmetrical power and differentiated interests are largely eviscerated from their accounts. The alternative framework developed in Chapter Two comprises three interrelated sets of concepts. First, the notion of path contingency and path shapers captures the relationship between structure and strategic action and frames the repertoire of possibilities in which agents make active choices and in turn shape future paths. Second, the framework draws on socioeconomics, which emphasises the socially embedded nature of social and economic change, and the importance of informal conventions in bridging the gap between agency and structure, and historical continuity and change. The persistence of informal institutions and mental residues from the previous regime are central to understanding why the entry and impact of foreign investment has been both complex and contested. Third, institutions are not seen as neutral constructs and the importance and role of enabling myths and circuits of intellectual capital are examined. The importance of enabling myths, as special institutions and habits of thought, are identified as a way of shifting 'inappropriate' ways of thinking and instilling and maintaining new conventions to maintain particular interests. The notion of a transnational capitalist class to transfer and diffuse a particular set of understandings with regard to businesses is elaborated.

Chapter Three focuses on theorising the embeddededness of firms in general, and foreign investment in particular. The impact of incoming firms will depend on quantitative and qualitative aspects of their linkages in the locality. In line with radical institutionalist thinking, it is argued that institutional and organisational variables produce a range of different outcomes, as firms are part of a complex web of relationships at different spatial levels. The approach developed here is to rescue the analysis of the firm from undersocialised accounts. In line with the NIOA approach, a point of departure is to introduce the notion of institutions serving to maintain asymmetrical power and differentiated interests. In line with radical institutionalist thinking, negotiations about entry and establishing production and restructuring workplaces are seen as potentially conflictual and contested rather than consensual. Central to this process is the way in which incoming firms need a set of formal and informal arrangements to operate and become competitive in different institutional settings as they cross national boundaries. Therefore concerns go beyond studying the economic impacts of the firm to examine their 'institution bending' effects.

Rather than seeing economic and non-economic factors as dichotomous, a taxonomy is presented which analyses influences on embeddedness in four groups of factors: structural, cognitive, cultural and institutional. Far from being hermetically sealed categories these groups of influences are all interrelated, however the taxonomy presented provides a useful device for exploring recent theoretical and empirical literature on firms and organisations.

The focus of Chapter Four is the relationship between institutions and the Wroclaw regional economy. The two previous chapters have argued that the impact of foreign investment in terms of its embeddedness in socioeconomic relations will be strongly influenced by the nature of governance in the locality. Strong claims have been made for the resurgence of regional economies as the locality becomes an important source of competitiveness for firms. However, in 1990 the regions of CEE were simply local organs of national government. The first part of the chapter looks at the process of reinventing and reconstructing governance in the Wroclaw regional economy. It examines the emerging base of formal institutions, but looks at barriers to constructing coherence, congruity in the context of enduring networks that are carried over from the past, and emerging new interests. The second part of the chapter focuses on path shapers, those agents of change who are forging the new institutional landscape. First, the *nomenklatura* is seen as having reorganised social capital in local power bases such as SOEs and local government to influence the restructuring of the economy. Second, this account identifies Solidarity and organised workers as a potentially powerful group, for cooperating with or contesting change, particularly in some of the larger firms with traditions of worker participation. Finally imported institutions from western Europe and America have been influential in terms of introducing new ways of thinking about economic behaviour in the workplace and the wider locality thought to be consistent with the demands of the market.

Chapter Five interrogates the concepts of structural and institutional embeddedness in relation to foreign investment in the Wroclaw regional economy. The empirical work is based on thirteen interviews with managers in flagship incoming investments drawn from sectors predominant in national patterns of foreign investment. The nature of competition and motives for locating are explored and related to the impact of the investments on the labour market, supply linkages, technology transfer and competition effects. The second part of the chapter takes as its starting point firms as being reflexive and political in crossing national boundaries and locating in new institutional set-ups. The nature of the relationship between firms, institutions and actors at various spatial levels is explored to examine the implications for embeddedness in the region. The final part of the chapter focuses on the specific embeddedness of SOEs in CEE, as distinct from firms in the established market economies. The focus of the empirical work is the case study of Polar, a white goods producer and flagship Polish company, where friction between the old legacies and new conditions are explored to explain the specific outcomes of the restructuring process. In particular, the critical role of the Solidarity trade union in tempering the pace and substance of change is central to the argument.

Chapter Six continues the theme of the previous chapter by looking at the role of firms as 'institution bending'. However, the aim is to provide a richer account of how firms establish hegemony in the workplace through an exploration of cultural and cognitive embeddedness. These aspects of embeddedness look at how firms attempt to shift organisational trajectories and collective understandings in the workplace, as well as attempting to access tacit knowledge through cognitive processes. The empirical material is drawn from two case study firms, Volvo and ABB, that exhibit contrasting example of strategies for disembedding old (inappropriate) legacies and instilling new (appropriate) understandings and work practices compatible with Western competitive practices. The second part of the chapter teases out the implications of influences on cultural and cognitive embeddedness in terms of technological upgrading, labour market impacts and competition effects.

Finally, Chapter Seven reflects on the main themes of the radical institutionalist analysis and embeddedness of firms developed in Chapter Two. The notions of path contingency, path shapers and cumulative causation, enabling myths and circuits of intellectual capital and the differential effects of cumulative change are revisited in the light of the findings of the empirical work.

We now turn to examining the competing theoretical frameworks which have dominated the analysis of and policy formulation for transforming economies.

ENDNOTES

1 TEMPUS, an abbreviation for Trans European Mobility Programme for University Studies, was an adaptation of the ERASMUS programme. It financed exchanges between academics from Western Europe and Central and Eastern Europe from the early to the mid 1990s.

2 Regional government between 1975 and December 1998 was organised on the basis of 42 *voivodships*. These arrangements were changed in January 1999 with the number of *voivodships* reduced to twelve much larger regional units to conform to EU NUTS regions. Dolnoslaskie includes the former *voivodships* of Wroclaw, Walbrzych, Legnica and Jelenia Gora.

CHAPTER TWO

PARADIGMS AND PANACEAS: THEORISING TRANSFORMATION

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2.1 INTRODUCTION

The aim of this chapter is to contextualise the debate about foreign investment and locality by reviewing the main theories advanced to analyse the transformation process in the previously planned economies of CEE. The first part of the chapter examines the contribution of neoliberal, state-led industrialisation and evolutionary schools of thought that have dominated academic debate and policy prescriptions on the restructuring of post-communist economies. In reviewing these approaches it is argued that while evolutionary theories in particular contribute to an understanding of economic change in previously planned economies, they only provide a partial framework. The second part of the chapter draws on various strands of institutionalist thinking to elaborate analytical tools and concepts with which to understand the process of transformation and the role of incoming foreign investment. In particular, the account emphasises the historical contingency of change, the importance of informal institutions and differentiated interests in economic processes.

2.2 THEORETICAL APPROACHES TO TRANSFORMATION

2.2.1 Capitalism by design

Two schools of thought have advocated a constructivist path to transformation. Constructivist approaches can be understood as those that posit particular forms of economic organisation as blueprints which can be transferred to other economies. While the neoliberal approach has advanced the market as a mechanism for restructuring and transformation, others have advocated state-led industrialisation based on the experience of South East Asia as a developmental path for post planned economies.

The neoliberal project

Prescriptions for transformation in Poland, in the initial stages at least, were underpinned by neoliberal ideas and a completely uncritical faith in the properties of the free market. This was translated at a policy level into the Balcerowicz programme (January 1990), which comprised a dose of draconian deflationary IMF policies and rapid liberalisation aimed at creating the conditions for the emergence of competitive markets (Blanchard *et al*, 1991). Shock therapy was justified on the grounds that the cure for the disease of the economic sclerosis of the previous regime required drastic and painful surgery (Lipton and Sachs, 1990; Kornai 1990a and 1990b; Brada 1993; Lloyd, 1996). Lipton and Sachs (ibid) wrote the seminal article summarising the neoliberal position, which argued that the goal of reforms was to produce an economic system comparable to those in Western Europe. The legacy of institutions in CEE was viewed as a problem that had to be sidestepped and circumvented to ensure that existing structures and interests could not derail the reforms. The introduction of a market system was seen mainly in terms of the destructive dismantling of the old, after which technocratic solutions would be fairly easy to implement to fill the gap.

Therefore the neoliberal school advocated little less than the complete reconstruction of economic arrangements with top down policy. In other words an attempt to jump start a market would involve measures which were intended to free up entrepreneurship, abolish barriers to entry and exit to the market, and abolish central price controls, with privatisation lying at the core of the policy (Pickel, 1992). History and society were viewed as being impediments to the design of the transformation agenda, and at best of secondary importance. Thus the 'economists consensus' advocated a package of policies, which could be transferred unproblematically from the very varied experiences and institutional set-ups in developed and developing countries (Gowan, 1995; Kozul-Wright and Rayment, 1997).

Restructuring was therefore to be accomplished by the market and the task of policy makers was to ensure that the necessary conditions for the efficient allocation of resources existed. Thus the priority was to set the framework for the pursuit of equilibrium and getting the price right. The emphasis on immediacy, comprehensiveness and simultaneity was also intended to side step and replace the old (inefficient) institutions and to undercut the power of insiders, both workers and the nomenklatura (Lipton and Sachs op.cit; Frydman and Rapaczynski, 1994). The role of the government was to be confined to that of providing the physical and institutional infrastructure of a market economy. Kornai (1990a: 38) argued that 'unambiguous and emphatic statutory force should be given to the principle that the private sector has unrestricted scope in the economy'.

The neoliberal approach emanated from the view that the market and market economies are some sort of self evident and natural mechanism from which societies can only deviate for a short time and at their peril. Kornai (ibid) in advocating a free market approach suggests that units of the private sector needed no stimulation, agitation or direction to act along the lines of the market, as this was their natural mode of existence. The intervention of the state in the process of transformation was deemed to be appropriate only in cases of market failure. Past experience of 'excessive' state intervention dictated that enterprises should be largely left the task of reorganising their own activities and active industrial policy was rejected (Gomulka 1992). Lipton and Sachs (op.cit) were even more emphatic suggesting that the legacy of communist bureaucracy made the state incapable of intervening even in cases of market failure, where economic theory suggested a more nuanced policy. In their view existing institutions and structures must then be either sidestepped or circumvented, if not abolished altogether, because

> ...the existing bureaucracy as equipped, professionally or temperamentally cannot be relied upon to implement sophisticated policies, based on Western style theories of welfare economics of the second-best (Lipton and Sachs 1990: 88).

In the neoliberal analysis economic laws are seen universal and well understood, as are the ingredients of a successful economy, namely that they are based on the free market, unambiguous property rights, underpinned by theorems of welfare economics, and the unassailable relationship between competition and static efficiency. In this context it is suggested that new institutions and laws can be transferred unproblematically from one domain to another.

The state-led industrialisation model

There is a second school of thought which has put forward a transferable developmental strategy in CEE that can broadly be described as state-led industrialisation and includes Lo (1995), Chang (1995), Henderson (1998) and Kozul-Wright and Rayment (1997) but finds its clearest expression in the work of Amsden *et al* (1994). Amsden *et al* argued that the activities and prescriptions of the Bretton Woods institutions, such as the World Bank and the IMF, allied to a mistaken commitment to the free market based on simplistic eighteenth century liberalism have been little short of disastrous in places such as Poland. They conclude that this was quite simply the 'wrong capitalist model' (ibid: 4). The aim of the institutionalist approach is to encourage the development of a 'Western-style corporatist social order' (ibid: 209). Planning has to reinvented and capitalism embedded into societies in which, it is argued, for decades it has been unable to fit.

All of these writers draw on notions of 'late industrialisation' and in particular the experience of the East Asian NICs. Chang (op.cit) argues that these countries are not a special case and further that the lessons of adopting a long term industrial strategy are not only desirable for, but also transferable to the economies of CEE. In the case of South Korea, the role of the state involved nurturing an effective domestic capitalist class, and compelling foreign capital to conform to a national development strategy, through appropriate ownership, pricing, financial and exchange rate policies. Late industrialisation was held to involve a number of essential elements; firstly, that large firms were bred by deliberate government policy in order to compete internationally against the oligopolies of industrialised countries; and secondly, that this process is mediated by the state, in particular by an autonomous bureaucracy embedded in the society at large. The outcome was semi-autarchic development, state driven, with a high degree of protection from international competition playing a pivotal role in restructuring.

In the state-led industrialisation view, CEE comprised a series of separate and largely uncoordinated decision making arenas, with a mixture of departures from, and continuing features of, the previous system. Kozul-Wright and Rayment (op.cit) described this situation as an institutional hiatus between the old and the new regimes, and between transition and more advanced industrial economies. In this view, the lessons of late industrialisation are that backward economies can only instigate a catching up process if such actions are mediated by the state and the institutions of an autonomous bureaucracy. State owned enterprises (SOEs), for example, could not be expected to restructure themselves unaided. Amsden *et al* (op.cit) argued that, for the economies of CEE, common sense dictated the following course of action; creating conditions under which viable state enterprises could self select themselves into growth; giving these state enterprises (as they turn into privately owned enterprises) adequate institutional support to generate saving, aid investment, and further technical advance; and empowering a government bureaucracy that could harmonise political democracy with the degree of economic governance that modern capitalism requires. On this reading, shock therapy may have had a role to play in signalling a shift in the trajectory of the economy, but it was entirely unsuited to the task of capitalist construction. This view argues that if the economies of CEE had reinvented planning and put into place appropriate institutional structures, recognising the centrality of the state in any process of restructuring, then outcomes could have been different.

The focus of both the neoliberal view and the state-led industrialisation approach were on transformation at a national level. The primacy accorded to macroeconomic stability by the neoliberal view meant that little or no attention was given to the increasing manifestation of regional inequalities. Neoliberal economics is devoid of history, institutions and place and the problem of regional disparities are seen only in terms of market failure and rectified by 'getting the price' right. Their logic suggests that fully functioning markets will allow wages to fall in peripheral areas, this will attract mobile foreign investment which will augment comparative advantage leading to factor equalisation. Although the state-led industrialisation view is highly critical of the neoliberal agenda the focus of institution building is also at a national level. Both perspectives can therefore be regarded as constructivist in the sense that both their theoretical approaches and the prescriptions that flow from them are predicated on circumventing existing institutions and inserting new structures. Whether designer capitalism (Stark 1995) is instituted through laying the foundations of institutional structures for markets to do their job (neoliberal) or as a bulwark against the forces of international competition (state-led industrialisation) both of these views can be criticised for ignoring historical processes and realities.

In both accounts incoming capital plays a central role in the transformation process. In the neoliberal view FDI is invested with talismanic powers (Dobosiewicz, 1992; Hunya, 1992; Donges, 1992; Dunning, 1993; Hunya, 1992) and seen as the 'engine of growth' (Lipton and Sachs, 1990) and TNCs as agents of change. It was claimed that foreign investment would bring a vital injection of capital to economies where domestic and individual savings were low. Advanced technology was assumed to be forthcoming with the transfer of production and research and development activities, thereby diffusing technical and managerial know how and expertise throughout the wider economy. Further, neoliberal accounts point to the role of FDI in bringing about a competitive stimulus that will force firms to restructure according to some sort of Darwinian survival of the fittest process. The state-led industrialisation view emphasises the role of managed and guided domestic investment and cautions against the illusion of automatic benefits from foreign investment. In this view governments should make a careful assessment of the costs of premature flows of FDI, which may result in the possibility of market domination and predatory behaviour where economic and social institutions are weak. Further, they point to the possibility of the capture of domestic policies by foreign companies which would undermine the objectives of competitive markets, fundamental to the transformation process (Kozul-Wright and Rayment, 1997).

2.2.2 Evolutionary approaches

The process of transformation between and within countries unfolded much more unevenly and in ways that were unexpected and unintended (Ksiepolski, 1991 and 1992; Gora *et al*, 1993). This left the door open for non-teleological accounts of social change based on evolutionary accounts [1] to explain why the move to the market diverged from the blueprints of the IMF and its advisors (Stark 1990, 1995 and 1996a; Pickel, 1992; Murrell, 1993). This perspective provides a critique of constructivist approaches in general, and the neoliberal analysis in particular, by suggesting that the focus on allocative efficiency and competition within a general equilibrium framework is misleading. The evolutionists are highly critical of the predictive and prescriptive capacity of economic theory for being reliant on a set of theoretical propositions known to be true only under highly stylised circumstances. Policy recommendations are thus oblivious to history and the specific local conditions in which these prescriptions are applied (Pickel, 1992). Offe (1995) suggests that fictitious notions of imitation and transplantation were posited that served to play down the differences that existed between sectors and countries, to create a deceptive clarity about some evidently and easily acceptable superior solution. Institutions from the West, he argues, 'were not invented in order to extricate an entire group of societies from state socialism and its ruins' (ibid: 57).

The evolutionary perspective is comprised of two main strands; firstly, it is argued that the centre of attention should be on processes and mechanisms producing growth and change, focusing particularly on innovation at both the level of technology and institutions, rather than equilibrium processes. The main concern of the evolutionary school is how to reorganise the institutional and organisational structures of these economies such that their ability to respond to unpredictable changes in the environment is enhanced; and, secondly, that economic theorising should begin with a realistic description of economic agents. The evolutionary paradigm considers change on the one hand and some form of bounded rationality on the other as the main building blocks of economic analysis. Bounded rationality helps to explain that routinised behaviour is an important determinant of the (dis)ability of an economic system to change, and path dependency determines the scope and incentives to change (Van Ees and Garretsen, 1994).

According to evolutionary thinking, the behaviour of economic agents is a product of both present and historical social processes. Reformers are criticised for taking as their starting point what they assume to be current economic incentives rather than taking account of the way that historical processes and past behaviour have shaped economic institutions and the response of economic agents. In the context of CEE Tsang refers to these informal collective understandings regarding economic behaviour as the 'implicit contracts of socialism' (1996:184). Evolutionary thinking is highly critical of any notion of a blueprint of a market economy or of the market institutions which comprise it. They point to the irrelevance of text book economic theory when compared to the vividness and variety of arrangements present in functioning capitalist economies, where the institutional matrix produced is idiosyncratic and contingent (Murrell, 1993; Hodgson, 1996). The evolutionary view suggests that although institutional homogenisation might foster adaptation in the short run, the consequent loss of institutional diversity will impede adaptability in the long run. Limiting the search for effective institutions and organisational forms to the familiar Western tried and proven arrangements locks in post socialist economies to exploiting unknown territory at the cost of forgetting (or never learning) the skills of exploring new situations (Grabher and Stark, 1997). Offe suggests a solution of 'institutional gardening' (op.cit: 59) whereby rather than engineering social solutions, agents of change should draw from the rich crop of inherited institutional practices which already enjoy the allegiance of all relevant actors.

In contrast to the neoliberal view which suggests that exploration is costly, inefficient and unnecessary, evolutionists argue that institutional legacies embody not only the persistence of the past but also resources for the future. According to the evolutionists organisations that learn too quickly sacrifice efficiency at the expense of exploration thereby locking themselves it is suboptimal routines and strategies (Grabher and Stark, op.cit.). In these recombinant emerging institutional forms it is envisaged, and indeed desirable, that the new elite of entrepreneurs will substantially overlap with the old nomenklatura (Levitas and Strzalkowski, 1990). Strong connections are seen between managerial and technocratic positions in the state sector and success in becoming entrepreneurs in post communism. In this view the legacy of the previous regime is that the former elite are well endowed to convert their cultural capital of education and training acquired in the old order to achieve prominent positions in the new.

At a regional level the evolutionary argument begins from the premise that the proper analytic unit is not the isolated firm but networks that link firms and connect economic agents within them. As such, attention shifts from the strategies and motivations of individuals to the properties of localities and networks in which entrepreneurial activity is reproduced. The economic unit to be restructured is therefore not the isolated firm but networks of individuals. The emerging localised governance structure based on horizontal rather than hierarchical or market coordination can contribute to mobilise resources in the formation of entrepreneurial units. Evolutionists argue that local networks woven with ties of kinship and friendship can reduce the uncertainties of economic change. Thus institutional legacies produce the friction that grinds against smooth transition but preserves diversity for future recombinant strategies, and legacies linkages and localities will forge pathways from state socialism (Grabher and Stark 1997).

Evolutionary accounts have been associated with schools of thought that see a resurgence of regional economies, local networks and endogenous development processes owing their renewed importance to innovation, local linkages, local interfirm relationships and local exchanges of information. This stands in contrast to that school of thought which sees regional development as more strongly influenced by exogenous developments, where the possibilities of regional transformation are set in the context of changes in the global economy (Tickell and Peck, 1995). Therefore the evolutionary school argues that institutions should be allowed to emerge in a path dependent way and that this process will be slow and incremental. Essentially it is concerned with the process of institutional innovation and learning rather than end points or outcomes, which could be any number of configurations of state, market and networks.

Van Zon (1992) and Hausner *et al* (1997) also draw on the evolutionary paradigm but differ in two ways from the conceptualisation of Grabher and Stark (op.cit.). Firstly, there is a more explicit acknowledgement of the imperatives of competition and global forces and the necessity of inserting the local into the global. Secondly, in common with Grabher and Stark (op.cit) their view is predicated on the assumption that the transformation of regions should emerge from below and that endogenous development is possible. However, Van Zon and Hausner suggest that policy makers cannot simply wait for these institutions to emerge or evolve, and therefore a more proactive approach to institution building is advocated. Van Zon argues that local systems of innovation are required to act as a counterweight to the devalorisation and deterioration of the scientific potential of CEE economies. Specifically the foundation of innovation centres, business incubators and technology parks are advocated in that these may bring about new modes of cooperation between local authorities, new entrepreneurs and universities. A regional innovation system is characterised as a flexible socioeconomic system with some coherence, exploiting distinctive traits, adjusting production processes and products to the local market and local specificities. Regional policy in his view should not primarily be aimed at attracting foreign capital, but exploiting endogenous development potential using local resources and characteristics. Foreign capital could be tapped by indigenous firms if TNCs can be embedded in local networks. Therefore the importance of regional innovation policies over those initiated at a national level are that they can exploit diversity, in that the specificities of the region must be turned into assets in economic development.

Hausner, *et al* (ibid) emphasise the notion of systemic vacuum, defined as the lack of a stable configuration of political and economic agents, at both a national and regional level. At the heart of the strategy is the notion of restructuring with the participation of the state approach where institutions are created which are complementary to the mechanism of the market and administrative co-ordination while ensuring social control over these mechanisms. The state should design, protect and stimulate certain institutions and local systems should be encouraged to take on the role of independent economic agents. Hausner *et al* (ibid) claim an observable correlation between the degree of advancement of restructuring processes at a regional level and the development of the relevant institutions in Poland. Therefore the task is to develop a coherent system of agents in regional restructuring at intermediate regional and local levels. The main strength of the evolutionary perspective's analysis of post-communist economic transformation is that it is able to map the way in which social change is incremental and divergent because of deeply structured inherited economic and social relations. I have, however, a number of concerns about this approach.

The evolutionary paradigm provides a powerful attack on the neoliberal argument where markets are exogenous and institutions peripheral, however the difference between the two views should not be overstated. The end state, the particular combination of market and hierarchy, will ultimately be determined by the market, with the most efficient institutions gradually emerging (Lo, 1993). This draws on Veblen's notion of 'blind drift' and the dynamic and contingent concept of process as a fundamental constituent of economic life (Cullenberg, 2000: 82). Therefore evolutionary thinking explicitly focuses on the process and is agnostic about the outcomes and endpoints (Klein, 1987). Murrell (1993) acknowledges that the divergence between the neoliberal analysis and the evolutionary approach is smaller than anticipated. The debate between the shock therapists and evolutionary perspective could be reduced to one in which the former emphasise the immediacy, speed and simultaneity of reform, and the latter ultimately argue for gradualism, seeing the seeds of change coming from within existing institutions and prepared to tolerate a wider number of configurations of state, firms and other economic agents.

While acknowledging that institutions limit the field of action, precluding some directions and constraining certain courses, the evolutionists fail to provide a framework of analysis that offers any explanation of the constraints and limitations in which the economic processes in localities operate. According to Jessop (2001) institutions cannot be meaningfully or productively analysed, without locating actors, identities, interests and strategies or tactics in a wider context. Exogenous pressures in the global economy and the importance of macroprocesses of political and economic power have been obscured in terms of their influence on the reinsertion of these regions into the global economy (Nielsen *et al*, 1995; Pollert, 1999). At the level of individual agents while there is an extensive evolutionary literature on rules, habits and routines to investigate the cognitive dynamics within firms stemming from the work of Nelson and Winter (1982), according to Lazaric (2000) this is divorced from the social and institutional foundation of individual behaviour inside organisations. Further there is a tendency to underplay the role of agency and view individual actors as passive bearers of routines and norms, or 'cultural dupes' as Jessop (2001: 1228) suggests.

A related concern is the overuse of the notion, 'path dependency' (Grabher and Stark, op.cit.) which has a tendency towards determinism in underplaying political agency and choice. As Nielsen *et al* (1995) point out this biological metaphor implies lock-in to a stable path of development involving incremental change that tends to reestablish itself when diverted by strong positive feedbacks. Although leads and lags and reversals are not excluded they are nevertheless seen as pre-given possibilities, which detracts from the radical indeterminacy of behaviour and outcomes. History and conjunctural analysis matter but these are not synonymous with the notion of path dependency, which is now used widely in a range of social science literature. Divorced from its origins, which draw on biological metaphors, the concept is usually taken as a proxy, for what should be more accurately described as historical or path contingency.

A final lacuna in the evolutionary thinking on transformation is that although the focus on process indirectly addresses uneven development, there has been little interest in the outcomes of these processes and little concern regarding the differentiated impacts and inequalities manifest in the restructuring of these economies. In particular, power and hierarchy have been largely absent from these accounts which see economic change as consensual rather than contested or conflictual. The notion of friction, when it appears, is conceived of in ambiguous and unspecified ways rather than in terms of vested interests by particular powerful social groups.

The next section draws on evolutionary thinking in recognising that history matters and that current behaviour is profoundly influenced by past legacies. However, in addressing the concerns discussed in this section the main points of departure are to give greater weight to a recognition that the choices open to and made by economic agents are influenced by exogenous factors and that change may be less incremental than the biological metaphor suggests. The following section also attempts to take seriously the existence of unequal asymmetrical power in the evolution and maintenance of informal institutions. With these concerns in mind I wish to identify a set of concepts and analytical tools based on institutionalist thinking with which to analyse foreign investment in the localities of CEE. In line with Hodgson's (op.cit) argument that institutional analysis takes place at multiple levels which must be linked together, the foregoing account attempts to provide a framework in which to understand both the broad changes that set the limits and parameters for action and the microprocesses and relationships between institutions and actors which make outcomes indeterminate.

2.3 A RADICAL INSTITUTIONALIST SYNTHESIS

The approach developed in this section draws on strands of literature which can broadly be termed as institutionalist [2]. The framework is underpinned by socioeconomic approaches (Granovetter, 1985, Smelser and Swedberg, 1994) and current institutionalist thought on transformation (Nielsen *et al*, 1995; Chavance and Magnin, 1997; Grabher and Stark, 1997) which emphasises the notion of path contingency. The point of departure is to draw on the old institutionalists (Veblen, 1899; Myrdal, 1957) in general, and the American school in particular (Dugger, 1989, and 2000; Zukin and DiMaggio, 1990; Powell and DiMaggio, 1991; Samuels, 1995). The old institutionalism belongs to that social science tradition based on a strategy of seeing people as a product of culture, whereas the new institutionalism (Williamson, 1975; North, 1990) favour a view of people as 'rational choosers' (Mayhew, 1988).

The analytical framework developed here conforms most closely to what could be termed a radical institutionalist approach. Although this school of thought shares an analysis of economic change as processual with non-radical institutionalists, it is differentiated by concerns with the asymmetry of power and its perpetuation (Hall and Taylor, 1996; Klein, 1987) which are largely missing from the current European tradition. Further, radical institutionalists are concerned not only with the process, but the outcomes of economic change and activity. Although there are disagreements and differences in emphasis within the school, Dugger (1989) offers a shared definition of radical institutionalism as being;

> A processual paradigm focused on changing the direction of cultural evolution and changing the outcome of social provisioning in order to promote the full participation of all (ibid: 126).

The following sections go on to elaborate the salient analytical tools which comprise the conceptual framework.

2.3.1 Path contingency and path shapers

Nielsen *et al* (1995) cast the problem of structure and strategic action in the context of transformation in terms of 'path dependency' and 'path shapers'. They suggest that institutional innovation can be represented as a continuum of possible conditions ranging from a voluntarist to a creationist pole. In the latter, those that emphasise the present to the exclusion of the past imply that agents have unbounded possibilities of intervening in current conditions and actively influencing them to forge new trajectories. An extreme version of path dependency suggests that institutional legacies of the past limit the range of current possibilities for institutional innovation. Models which draw on biology leave unexplained how a given path came to be locked into and whether this process occurred due to blind evolution, conscious intervention and/ or some other factor(s).

A radical institutionalist analysis argues that history matters, in that past developments constrain the set of feasible current choices of possible trajectories. However, in contrast to what is described as the 'snakes and ladders' approach of path dependency, the path shaping approach implies that, within specific, historically given, and potentially malleable limits, social forces can redesign the 'board' on which they are moving (Nielsen *et al,* op.cit.). However, this is not to suggest a simple dichotomy between structure and action, rather the framework here corresponds with Jessop's (2001) strategic-relational approach where institutions are 'recursively reproduced sets of rules and resources that both constrain and enable social action' (ibid:1216). Therefore actors not only engage in action within a given institutional matrix, but in certain circumstances can 'reflexively reconstitute institutions and their resulting matrix' (ibid: 1226).

While capitalism is underpinned by specific and universal characteristics (Screpanti, 1999; Meiksins Wood, 1997) individual capitalist systems, in their historical and national development, have all been characterised by a high degree of institutional and organisational diversity (Zysman, 1996; Boyer, 1995; Whitley; 1997 and 1998). Similarly the economies of CEE have exhibited a rich variety of different institutional matrices that depart from the models of designer capitalism (Stark, 1995) posited in the early days of transformation. Chavance and Magnin (1997) point out that post communist transformation has produced complex developments that cannot be reduced to market forces or blueprints of privatisation and emphasise the historical and path dependent character of systemic change. Thus specific and evolving configurations of post-communist economies are characterised by their composite, combined or mixed features, which cannot be viewed as stageposts as the economy moves from one end point (the command economy) to another (the market economy).

Chavance and Magnin (ibid) suggest that emerging structures in CEE are the result of both common trends and national specificities. Similarities shared by CEE economies, would include the move towards an emphasis on market forces and its discourses, the globalising trends of FDI and the influence of international organisations. However, communist economies were not homogenous with a single logic and there are important dissimilarities. First, there is diversity in the starting point and initial conditions of these economies in terms of the legacies of their industrial structures, the nature and depth of the crisis that pertained in the late 1980s and the degree of integration with the West . A second dissimilarity relates to the 'path of extrication' (Altvater, 1998) taken by these economies in response to the economic stagnation that was apparent by the late 1960s (Maddison, 1991). Hungary, for example, instituted widespread and relatively successful market reforms in 1968 and became more integrated with West European economies, whereas Poland had two decades of disastrous economic reforms. The third factor influencing nationally specific paths of transformation after 1989, was the balance of political forces and the unique political and economic routes taken. In Poland, the central role of Solidarity in bringing about the demise of the previous regime and its massive popularity at the outset of transformation gave the government a unique opportunity to implement a drastic set of reforms (Ost, 1989 and 92; Rainnie and Hardy, 1995).

With regard to the potential impacts of foreign investment on locality in CEE the notion of path contingency is important in understanding the restructuring of firms and the importance of existing legacies. Stark (1990; 1996a and 1996b) looks at emerging new forms of property and corporate structures in the former state sector in Hungary and argues that a process of recombination has been evident in organisational innovation as a reconfiguration and rearrangement of existing institutional elements. The transformation of property relations, for example, is a complex process characterised by a combination of the newly emerging private sector, incoming FDI and the privatisation and restructuring of SOEs to produce hybrid organisational structures (Bim *et al*, 1993; McDermott, 1997). These emerging structures were, therefore, infused with the old habits and routines of soft budget constraints, aversion to change, rent seeking and maintaining old networks of contacts with the national and local state (Winieckie, 1992). Despite the introduction of both formal and informal institutional change through foreign investment and Western management techniques deep structural characteristics in the economy and business such as continuities with the previous period have limited the scale and speed of corporate change (Czaban and Henderson, 1998; Czaban and Whitley, 1999).

The notion of path contingency has been extended to localities (Van Zon, 1992; Grabher and Stark, 1997; Hausner *et al*, 1997) who argue that local specificities should be built upon to ensure embedded and adaptive economies. Grabher and Stark argue that in the dominant view localities are irrelevant in constructing strategies, because the focus has been either on the individual firm or policies at a national level regarding monetary policy, legal frameworks, or regulatory institutions. 'Place, the problem of localities, is out of place in this perspective' (ibid: 540). It is argued that globalisation does not displace the properties of localities but makes them all the more salient. Greater market volatility shifts strategic action from economies of scale to economies of scope, and in this context local knowledge, local culture and local networks give shape to new organisational forms of flexible specialization.

2.3.2 Socioeconomics and informal institutions

A central tenet of the old institutionalist analysis is that it is highly critical of that large part of social reality which is left outside economic analysis by the abstraction from 'non-economic factors'. While Marx and Weber produced the first sociological studies of society, the origins of socioeconomics draws its tradition from Karl Polanyi (1944) in emphasising the institutionally embedded nature of social change. According to Polyani, economic action without 'the societal element' would be 'bare bones'. Such ideas were echoed in the work of Myrdal (1957) who saw markets not as exogenous but as socially constructed;

> The market does not just happen. It is not a natural phenomenon. The market is a set of instituted social relations, a set of rules determining what things can be exchanged, who can exchange them, who will benefit from the exchange, and whom will bear the burden of the exchange. (Myrdal, 1957: 8)

Other work has emphasised the way in which local and national economies are shaped by enduring collective forces (Hodgson, 1988). Old institutionalists stressed not only the role of formal rules and institutions, but also informal conventions, habits, norms and values in bridging agency and structure, and historical continuity and change. For Veblen (1899) institutions were:

................prevalent habits of thought with respect to particular relations and functions of the individual and the community...............The situation of to-day shapes the institutions of tomorrow through, selective, coercive processes, by acting upon men's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past (ibid:118).

Institutional set ups thus define the qualities of networks, their stability, their degree of coherence, their collective efficacy and above all their governance structure. Institutions, both hard and soft, constitute the webs and nodes of networks, the channels of collective organisation and communication as well as the points of intersection and encounter. Therefore institutions are regarded as imposing form and social coherence upon human activity partly through the continuing production and reproduction of habits of thought and action (Hodgson, 1998a: 180). In other words, people are socialised by a 'hidden curriculum' as accepted values, norms and rules are embodied in institutions and these are regarded as second nature.

Concerns about the absorption of a certain set of values that made a particular state of affairs self evident were central to the work of Bourdieu (1972, 1981). His concept of habitus emphasises the doxic (taken for granted) elements of action, social classification and practical consciousness. Importantly his contribution is a recognition that understandings and values may be fractured or differentiated by social group.

The habitus is an analytic construct, a system of "regulated improvisation" or generative rules that represents the (cognitive, affective and evaluative) internalisation by actors of past experience on the basis of shared typifications of social categories, experienced phenomenally as "people like us". Because of common histories, members of each "class fraction" share similar habitus, creating regularities of thought, aspirations, dispositions, patterns of action that are linked to the position that persons occupy in the social structure they continually reproduce" (Bourdieu, 1981:309 [quoted in Powell and DiMaggio, 1991: 26])

It is important to elaborate on the notion of social capital and its relationship with informal institutions. Bebbington and Perrault (1999) note that the notion of social capital has entered into usage in social science more rapidly than any agreement as to a precise definition. In this context it is taken to mean the norms and values that collectively exist in particular networks. Networks are based on some form of shared identity and concern (Durston, 1998) and repeated action through participation in networks means that actors are caught up in sets of rules, understandings and bodies of mutual information. The use of capital is important because it refers to properties that facilitate productive activity when combined with other forms of capital. Bebbington and Perrault (op.cit) cite a World Bank report (1996) that pushes the analogy further arguing that social capital, like other capital, is both an input to and output of development. Importantly, social capital can have either positive or negative effects on other types of capital.

Therefore formal and informal institutions and social capital are important to the transformation process in general, and the relationship between FDI and locality. There is a strand of literature that suggests that the degree to which the global can be 'pinned down' in terms of the potential impact of FDI is related to the quality of local institutions (Amin and Thrift, 1995b). In this view, the politics of place requires the construction of local regulatory frameworks with appropriate institutional thickness. The aim of local regulation is to balance the forces of cooperation and competition and therefore act as a positive force attracting increasingly mobile FDI and embedding it in the local economy. In the case of CEE, institutional failure is viewed as a primary reason for failing to harness the developmental potential of FDI. In the context of Poland, Hausner *et al* (1997) see a correlation between the development of institutions and the progress of transformation at a local level.

Informal institutions and social capital can facilitate or impede economic growth and integration. Van Zon (1998) argued in his study of the Zaporizhzhya area of the Ukraine, that habits and norms that persisted from the previous regime, in terms of a climate of kleptocracy by the elite and general distrust, constrained the repertoire of alternative development paths. Fragmentation and atomisation of society inhibited information flows and hampered open debate. In the context of examining a border region Kosonen (1997) looks at the way in which Vyborg border region (Finland/Russia) transformed from an agent managing its development in the pre-communist era to a patient incapable of generating self sustained economic processes due to a lack of critical institutions. In contrast to these pessimistic accounts, Uhlir (1998) gives a more sanguine account of a case study in the Czech Republic, whereby incoming FDI combines with networks in which the social capital of *nomenklatura* is based, to produce a successful and embedded foreign investment. The notion of informal institutions have aided an understanding of the transformation process in terms of explaining the diversity of outcomes and problems in imposing a set of solutions at the level of the nation, locality or firm.

With regard to SOEs the continuation and persistence of informal institutions have been central to explaining why the restructuring of individual firms has been slower than expected. Winieckie (1992), Swaan (1996) and Swaan and Lissowska (1996) have analysed the slow adaptation and adjustment of SOEs by suggesting that the stock of existing routines, behavioural patterns and expectations reflect historical experience and are not suitable for the new environment.

A radical institutionalist approach not only acknowledges the importance of informal institutions but goes further in arguing that they need to be understood in terms of their content, their creation and recreation and in whose interests they operate.

2.3.2 Power, enabling myths and circuits of intellectual capital

This section draws on a second notable feature of old institutionalism which is the prominent role of power and asymmetrical relations of power as being central to understanding economic change and processes (Hall and Taylor, op.cit; Samuels, op.cit., Dugger, op.cit., Klein, op.cit.). This approach is especially attentive to the way in which institutions distribute power unevenly across groups.

> ....it is clear, particularly in the work of Veblen, that the impact of economic power on the system has always been a basic tenet of institutionalist thought, conditioning the entire manner in which economic activity unfolds......Economic power emerges from comprehending the changing technology and deliberately manipulating the institutional response, often in the interest of a narrow group. (Klein, 1987: 1358)

Therefore Klein identifies Veblen's major contribution as his emphasis on the commanding and pervasive role played by what he called vested interests.

Rather than positing scenarios of freely contracting individuals, for instance radical institutionalists assume a world in which institutions give some groups or interests disproportionate access to the decision making process. Rather than emphasise the degree to which an outcome makes everybody better off, they tend to stress the way in which development may be a zero or negative sum game (Hall and Taylor, 1996). In contrast to consensual accounts a distinctive feature of the radical institutionalist account is the rejection of the harmony of interests, 'We are not all in the same boat, some of us have been thrown overboard so a rising tide affects us differently' (Myrdal, op.cit: 111).

Birchfield (1999) suggests that the ideological dimension of globalisation and the market consistent with deregulation and liberalisation has not been adequately exposed or problematised. The importance of private property, competition for scarce resources and the assumption of individuals motivated by self interest are presented as unchallengeable assumptions of economic life. Whereas inequality is a necessary feature of neoliberal analysis, the starting point for radical institutionalists is that inequality whether between individuals within an economy or between regions and states (Myrdal, op.cit) is an undesirable state of affairs.

> ...the equality doctrine is not merely an abstract formulae propounded in books and speeches. It is also an expression of a living ideal and as such part of social reality: a valuation partly perceived by people to be morally right. (Myrdal: 111)

Waller (1989) and Samuels (1995) draw our attention to institutionalist thinking as a critical body of thought that challenges the implicit conservatism of neoliberalism which takes for granted a structure marked by inequality and hierarchy. Samuels argues that:

> This pluralism is manifest in the propensity of institutionalists to call attention to that obfuscation and reinforcement and the implications of the conduct of economic theory. It arises from explicit concern for the fate of the working class and the masses and their institutional values, especially

> their participation in the process through which reasonable value is established. It is manifest in the institutionalists' focus on the economy as a non-deterministic and non-mechanistic decision making process, in contrast for example, to tendencies to treat the formation of preferences and working rules as if governed not by power butby transcendent mechanisms. It surfaces in the willingness of institutionalists to pay attention to the views and ambitions and values of the masses. It especially arises in the tendency to maintain some distance from established powers so as to maintain their sense of perspective. (Samuels: 1995: 574).

Concern with the formation of 'preferences and working rules' raises crucial questions as to how particular groups maintain their privilege and power. There is a long lineage of those who have tried to explain the way in which those with power and wealth have convinced those that have not that this state of affairs is a self evident fact and part of the natural order of things. Fundamental to the work of Polanyi (1944) and Lazonick (1991), was a critique of the myth of the self regulating market. According to Marx individual socialisation in a stratified society was a powerful form of coercion and he argued that workers suffered from 'false consciousness'. Veblen, however, was critical of Marx's assumption that workers, in particular circumstances, would come to a true understanding of their objective circumstances, whereby false consciousness would be replaced by class consciousness. Veblen counterposed the notion of 'emulation' which he elaborated in 'The Theory of the Leisure Classes' (1899), and which he saw as being promulgated in the notion of ceremonial processes or institutions:

> Ceremonial aspects of behaviour are characterised by commands or rules that are sanctioned by a higher authority......This behaviour is also characterised by legends. These legends tell of the mythical testing that demonstrated the efficacy of this behaviour in the mythical past...This process serves as a justification for existing systems of status and privilege, which in turn give the force of authority to the commandments. (Dugger, 1989: 42)

This is echoed in the work of Bourdieu (1972) who argues that every established order tends to reproduce, in different ways and to different degrees, the naturalisation of 'its own arbitrariness' (ibid: 164).

> The instruments of knowledge of the social world are in this case (objectively) political instruments which contribute to the reproduction of the social world by producing immediate

> adherence to the world, seen as self evident and undisputed, of which they are a product and of which they reproduce the structures in a transformed form. (ibid: 85)

Enabling myths, in particular, amount to a fiction which plays down differences in institutional conditions to create a deceptive clarity that a specific ways of organising things is self evident. Dugger (2000) talks about the way in which enabling myths are deeply embedded in standards, structures and beliefs and the meanings of culture. The market, for example, becomes an important enabling myth whereby the invisible hand produces a particular set of results which are outside the control of human agency and is therefore impartial in its operation. These enabling myths do not appear spontaneously but are promulgated by a particular group of social and moral agents who create institutions in terms of normative and cognitive rights and duties. In the context of CEE Offe (1995) emphasises the importance of frameworks of regulations to develop the right understanding of situations, in particular the market and points to the socialisation capacity of those in privileged situations who reflexively and recursively attempt to institutionalise ultra stability.

It was Gramsci (in Hoare and Nowell-Smith [3], 1971), however, who elaborated this idea by suggesting that elites achieved hegemony through their control of the ideological apparatus of the state, and pointed to the existence of 'organic intellectuals' whose role was to justify the status quo.

> If not all entrepreneurs, at least an elite amongst them must have the capacity to be an organisesr of society in general, including all its complex organism of services, right up to the state organism, because of the need to create the conditions most favourable to the expansion of their own class; or at the least they must possess the capacity to choose deputies (specialized employees) to whom to entrust this activity of organising the general system of relationships external to the business itself. It can be observed that the "organic" intellectuals which every new class creates alongside itself and elaborates in the course of its development are for the most part "specializations" of partial aspects of the primitive activity of the new special type which the new class has brought to prominence." (Gramsci, 1971: 6)

This notion of a group of people who create and promulgate a set of ideas to justify a set of actions and conditions, is elaborated by Thrift (1998, 2001) who points to the advent of 'soft' or 'knowledgeable' capitalism with intellectual capital as being central to the new competition. Intellectual capital can be understood as comprising the tacit and codified knowledge of individual firms (Klein, 1998), and also the particular understandings of the business community collectively. One important element of intellectual capital is managerialist discourses or enabling myths which legitimate certain kinds of constructs, positions and affective states over others (Thrift, 1998). In the context of foreign investment and crossing national boundaries, circuits of intellectual capital are not only necessary to smooth the path of circuits of productive and financial capital, but also to effect rapid change in situations where managers have to react swiftly and turn businesses around within ever shorter time frames.

In a similar vein, Sklair (1997) identifies a transnational capitalist class who perpetuate and spread ideas. There are three elements of the transnational capitalist class that are important for the role of foreign direct investment in the transformation of CEE: first globalising bureaucrats (the World Bank, IMF and WTO), second TNC executives and third professionals, and in particular consultants, who Thrift (2001) refers to as unacknowledged legislators in the sense that they produce and disseminate current notions of best practice. Globalising bureaucrats are important for laying the conditions for the internationalisation of capital. Hollingsworth and Boyer (1997) note that the competitiveness of a country's dominant social system depends, at least in part, on the international rules of the game. Further, Harmes (1998) points to the role of institutional investors in the reproduction of neoliberal ideas. Within certain limits powerful countries can create international regimes that favour particular firms and sectors by setting the rules of engagement. Powerful nations and the supranational organisations they dominate may seek to alter productive systems in their own image and establish some sort of ideological hegemony. This is established through a combination of coercion and conditionality [4] and 'winning hearts and minds' through replacing old habits and norms with new discourses.

It is important not just to understand how Poland and its regions are fitting into the emerging international division of labour, but also the role played by supranational organisations in framing the emerging material and discursive practices in Poland and other countries in transformation. With its focus on endogenous change it has been suggested that the evolutionary account underplays the role of exogenous institutional props. Baker and Welsh (1999) suggest that these instruments of 'rational', Western modernisation operating in CEE include some of the most perfectly honed instruments of global governance that have evolved in the post war period. Most notable these include the World Bank, IMF, G7 and the EU. These organisations have precluded some paths of transformation and narrowly limited choices, in the case of the EU for example, in terms of positing particular models of local governance (Hardy and Smith, 2002). Significantly these organisations have affected the restructuring processes of firms and in particular the form and content of the privatisation process [5].

The arrival of foreign investment, TNCs and their executives have been to the fore in instilling new material and discursive practices through deep restructuring of workplaces and workplace behaviour, and the institution bending effects of foreign investment may have greatly exceeded their immediate economic impacts (Hardy, 1998). There are different corporate strategies for instilling new discourses and Schoenberger (1997) drawing on Bourdieu (1984) identifies the divergent sources that this group use to create hegemony and maintain power. Material sources of power derive from position, incomes and wealth, while differential access to educational capital confers social acceptability. In the context of foreign investment this means socialising local managers into the corporate culture of the company

> They had to engage with the soul (Lewin and Regine, 1999). This means investing the community with a sense of purpose and common ownership through deliberate working on relationships. The idea was that the management body would be sensitized to the social dynamics of the organisation and could achieve continuous modulation rather than bureaucratic control (Deleuze, 1990). The management body could go with the flow, providing smaller but more effective interventions as and when necessary, the heavy bureaucratic hand was replaced by the light touch of the change agent. (Thrift, 2001: 419)

As important as the new managerialist discourse itself, has been the growth of agents responsible for its spread across the globe who form an emergent and increasingly powerful class. This class is now self organising and responsible for the production and distribution of managerial knowledge and includes such means of dissemination as the popularity of studying business, seminars, and texts by management gurus. Thrift (2001) identifies three main functions of these agents; first, they provide ' a kind of grammar of business imperatives' (ibid: 416) that is the general principles of business life; secondly, information on how to attain certain goals; and third, intelligence gathering as they continually monitor new organisational innovation and what is working, thereby providing a relentless critique of the status quo. The link between corporate strategy and regional restructuring is increasingly being influenced by this growing use of consultancy expertise used by large companies to access technical knowledge (Antonelli, 1999) but especially to bring about the 'management of change'. Consultancies operate through the corporate networks of clients, thus exerting national and global influence on patterns of geographical industrialisation (Wood, 2000). Creating the right attitudes and institutional conditions has been at the heart of assistance and aid from the western market economies. The aim of these programmes was to 'win hearts and minds' with the overriding aim of disembedding the old ideas and instilling a set of assumptions, norms, habits and rules of behaviour that were compatible with a capitalist economy.

2.4 CONCLUSION

This chapter has explored the various theories posited to understand the current processes of transformation in CEE. Neoliberal analysis and the model of state led industrialisation have both been criticised for their mechanical approach, which take what are deemed to be successful recipes from other institutional settings to transplant or jump start capitalism into the previously planned economies of CEE. Drawing on evolutionary analysis it is posited that economic processes are embedded and not exogenous, and a conceptual framework was put forward which suggested that change was path contingent. Institutionalist analysis in general opens up the possibility of a non-teleological analysis of the restructuring of CEE economies and enables an understanding of why transformation has been uneven and idiosyncratic both between and within individual economies.

Radical institutionalist thinking is concerned to look not only at the networks in which economic activity is embedded, but at power relations within those relationships and in particular to focus on the 'institution bending' properties of TNCs. Further, the legacies of not only formal, but also informal institutions, were highlighted as critical to understanding why the process and outcomes of foreign investment were complex and contested. An important departure in the radical institutionalist approach therefore, is to accord power a central role in explaining economic change, and to problematise the perpetuation and maintenance of differentiated interests through the use of enabling myths.

Although this conceptual framework facilitates a broad understanding of foreign investment in the transformation process, in order to understand the impact of incoming firms in localities, it is necessary to open up the black box of the firm and to examine how far recent changes in corporate strategy have influenced the nature of firms' qualitative and quantitative linkages at different spatial levels. It is to this I turn in the next chapter.

ENDNOTES

1 Some schools of thought would see evolutionary thinking as a sub set of institutionalist thinking. Indeed one of Veblen's major contributions was to produce an essay in 1898 on 'Why Is Economics Not An Evolutionary Science'. As Hodgson (1998) points out evolutionary economics is a vague and ill defined term, which does not necessarily imply drawing directly on biology. Evolutionary theory in this section, should be understood as those theorists who lean more heavily on the use of biological metaphors.

2 It is not the intention of the thesis to provide a detailed history of institutionalist thought or a taxonomy of the various strands within it, both of these have been done extensively elsewhere (see

for example, Mayhew, 1988; Samuels, 1995; Hall and Taylor, 1996; DiMaggio, 1989; Hodgson, 2001; Nielsen, 2001).

3 Hoare and Nowell-Smith (1971) assembled and translated Gramsci's writings from 1917 to 1923, which are collectively known as the Prison Notebooks.

4 There has been a strong element of conditionality. A whole range of other organisations have championed the cause of deregulation and liberalisation (see Amsden *et al,* 1994 for a full discussion of the Bretton Woods organisations, conditionality and restructuring). Organisations such as the World Bank and IMF, have not had to rely on exhortation alone, the conditionality of stand-by loans and loans for infrastructural development have been inextricably linked to progress on the privatisation front. The United States Agency for International Development (USAID), which has had the task of promoting global privatisation, has made large resources available in CEE to allow direct US investment in privatise assets.

5 For example, while public debates about mass privatisation were taking place in Poland, behind the scenes the World Bank was responsible for back door privatization. This circumvented both the *Sejm* (parliament) and individual firms, by introducing a debt equity swap whereb,y in effect Polish banks took ownership of individual firms.

CHAPTER THREE

THEORISING THE LOCAL EMBEDDEDNESS OF FOREIGN INVESTMENT

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THEORISING THE LOCAL EMBEDDEDNESS OF FOREIGN INVESTMENT

3.1 INTRODUCTION

The previous chapter presented a radical institutionalist framework in which to understand the transformation process and the broad role of foreign investment within it. In order to examine the influence and impacts of incoming investment on a region, it is necessary to develop a richer understanding of the way in which firms are embedded or nested in complex relationships at a number of different levels. The aim of this chapter is, therefore, to identify recent organisational changes and tease out their implications for localities.

There have been several contributions to understanding and conceptualising the relationship between firms, localities and regional environments (Dicken and Thrift, 1992; Oinas, 1995; Dicken, Forsgren and Malmberg, 1995; Dicken, 1998). Chapter One outlined three sets of claims that had been put forward to support a positive role for foreign investment in the transformation process in Central and Eastern Europe. To summarise briefly, the first view was based on a neoliberal analysis that saw foreign investment as the stimulus for competition that would automatically bring about growth and development. The second view was that changes in the corporate strategies and organisational structures of firms offered less developed regions better developmental possibilities, a view consistent with Dunning's (1997) analysis of the move from hierarchical to flexible capitalism. The third set of arguments derive from the new regionalism which emphasises the centrality of locality as a source of competitive advantage.

The analysis in this chapter draws on the new economic sociology or socioeconomic approach which elevates the firm from the realms of the economic to produce a more socialised account of firm behaviour. Beginning with Polanyi's (1944) seminal work and its reconstruction by Granovetter (1985) the concept of embeddedness has made significant impact on the new economic sociology (see Dacin *et al* [1999] for a full review of embeddedness and organisational behaviour). Undersocialised accounts of the firm in neoclassical theory, relegate agents insofar as they appear, to the role of vessels of ahistorical and acultural rationality. The tendency of some post-Fordist theorists has been equally mechanical in falling back on abstract ideal-type constructs, which presume that generalised patterns of structural change have inexorably pushed firms in the direction of irreversible organisational tendencies. Mass production and flexible specialisation were presented as two ideal-typical models of individual firms, and it followed that all sectors and national economies, should be viewed as being at some point on this trajectory [1] (Lipietz, 1987).

The approach taken here attempts to rescue analysis of the firm from undersocialised approaches, to produce a theoretical account whereby firms are spatially entangled in webs of social relationships, and take on cognitive, cultural and social forms. This relational view of the firm rather than focusing on exchange, emphasises the relationship and interaction between different economic agents and institutions which are continually constructed and reconstructed (Grabher, 1993). Concepts of embeddedness and relational views of the firm have undoubtedly made an important contribution to studying economic behaviour and offer much richer potential for capturing the wide variety and complexity of linkages, in all their social, political and economic dimensions.

In order to understand the impact of foreign investment on a particular region, it is necessary to rethink and sharpen the notion of embeddedness. Rather than supplanting economic categories with non-economic categories which might include 'social', 'cultural' and 'political', and viewing them as mutually exclusive and dichotomous, economic and non-economic aspects are merged to offer a more integrated and richer way of looking the influences of firms on locality. Further, in order to open the black box and examine current literature on organisational change, the approach taken is necessarily inter-disciplinary and draws on insights from political economy and economic geography, as well as studies of organisational behaviour and the labour process.

The structure of the chapter is as follows: In order to interrogate the current theoretical and empirical literature on the firm and to discuss its implications for the nature and form of connectivities the foregoing discussion centres on a taxonomy based on four influences on embeddedness, broadly adapted from a categorisation posited by Zukin and DiMaggio (1990). Although recognising that processes never exist alone, but occur in particular configurations with other processes, influences on embeddedness are grouped for discursive convenience into structural, cultural, cognitive and institutional influences.

First, structural influences we can understand as external constraints, in the short term at least, related to the economic context in which the firm operates. Second, cultural factors are those shared understandings that pervade all aspects of the firms corporate strategy, which may be influenced by individual idiosyncracies, management fads or country of origin. Third, the increasing emphasis on the notion of the learning firm and innovation place cognitive processes at the centre of firms' corporate strategies. Finally institutional influences are central to the behaviour of firms. This includes a focus on firms as reflexive actors who need to actively engage with national and local states. Equally important is the way in which firms' behaviour, particularly as it crosses national boundaries, is shaped by and shapes the informal institutions of the host economy. Table 4.1 (overleaf) suggests a taxonomy for understanding these four influences on embeddedness each of which is then discussed in relation to recent literature on the firm.

A further section examines the particularities of the embeddedness of State Owned Enterprises which emanate from a distinct institutional set up. The final section of the chapter reflects on what is distinctive about a radical institutionalist approach to the embeddedness of firms.

Table 3.1 Influences on the embeddedness of firms

Influences on Embeddedness	Dimensions of embeddedness	Description	Impact on Locality
Structural factors	Nature of competition	Stability or turbulence of market Entry on basis of low cost or value added	Permanence and timescale of employment Number of jobs, Permanence of employment Wage levels Training and development Competition effect on local firms
	Networks	Degree of deverticalisation	Opportunities for SMEs Generation of local learning
	Supply linkages	Expenditure of purchases in the region First and second tier suppliers Nature of cooperation	Multiplier effect on employment Level of training Quality impact on local firms
Cultural factors	Internationalisation strategy	*Mode of entry* Greenfield or brownfield *Agents of change* Use of consultants, company best practice or local adaptation	Rupturing of or building on local networks Displacement or recombination with local institutions. Upgrading of local human capital
	Country of origin and national business system	Attitude to suppliers, corporatism, corporate culture	Use of tacit knowledge of workers Level of contact with formal institutions Profile in locality

Cognitive factors	Regions as a source of tacit knowledge	Untraded dependencies Internationalisation or localisation of R&D Degree of trust	Level of dependence Generation of local learning Investment in R&D Intensity of local information flows
	Organisational change and learning	Hierarchical or heterarchical tendencies Place in corporate hierarchy Subsidiary, global mandate, internal market/ competition	Propensity for communication and innovation Degree of local autonomy and decision making in finance, R&D, investment
Institutional factors	Linkages with national and local government	National and local government Strong or weak connections with agents in the locality	Nature of entry agreement (employment levels, local suppliers) Degree of dependence on national level for establishing rules of operation
	The importance of non-state institutions	Chambers of commerce, business services, development agencies Degree of consensus and cooperation Networks of large firms (diners clubs, informal meetings tracking competitors)	Ability to attract and retain foreign investors Industrial atmosphere Institution bending or feedback into associative life on government, efficiency and business activity
	Workplace institutions	Institution bending managerial & labour practices	Employment and wage levels Security of work, Intensity of work Extent of social provision Workplace representation

3.2 STRUCTURAL INFLUENCES ON EMBEDDEDNESS

Structural factors are the first set of influences on embeddedness. By this we mean parameters that limit the field of action in which agents formulate strategy, and broad imperatives which ultimately push firms towards particular ends, albeit via a number of diverse routes and managerial strategies (Schoenberger, 1994). These structural influences relate to factors such as the competitive features of the sector, which will be a function of the number and concentration of firms, and the degree and form of regulation/deregulation. Further, the nature of the product or service, the labour/capital ratio, the level of technology and nature of the market are structural aspects of the context in which the firm operates. This is not to suggest a mechanical and one way causal relationship, where conduct and performance can be read off the market structure of the firm, because structures are paradoxically both constraining and generative. Firms have a huge repertoire of tactics and strategies that can be deployed in response to exogenous opportunities or problems that will depend on the cognitive, cultural and institutional factors explored in the following sections. The cumulative effect of the collective response of firms will change the structural features of the competitive environment in which they operate, so in this sense we can regard firms as both the subject and object of a wider imperative.

An understanding of structural influences is important in terms of gauging the potential of foreign investment for regional development. The range of options and degree of latitude that firms have in making decisions about their own future, for example, may be overstated by underplaying factors that are exogenous to the region. Two structural influences are identified as being salient for understanding the relationship between the firm and the locality: the nature of competition, and the existence of networks, particularly the relationship with suppliers.

3.2.1 The nature of competition

Ilinitch, Lewin and D'Aveni (1998) suggest that firms now operate in a situation of 'hypercompetition' and 'disorder' where CEOs are quoted as describing the new situation with adjectives such as 'brutal', 'intense' 'bitter' and 'savage' where 'only the paranoid can survive'. Schoenberger (1997) and Mytelka (1996) identify the compression of time as critical to the new competition and argue that firms compete in terms of their ability to reduce time in the development of new products, order cycles and time to market in order to gain a significant advantage over competitors. The shaping of sectoral relationships and the acquisition of external reputation for unique competencies has emerged from an initial period of architectural turbulence and often, internal strife within existing and nascent organisations (Loveridge, 1996).

The nature of competition is related to stability and turbulence in the global economy in general, and the characteristics of individual sectors in particular. This issue had received little discussion in the neoliberal literature which assumes a steady state, rather than the radical institutionalist position which sees a world of indeterminacy. It is argued that the intensity of competition has implications not only for the location of firms in time and space, but also for the permanence of a firm's operation and the time horizon over which it operates. This may depend on the income elasticity [2] and the pace of technological change. For example, those firms for whose goods demand is relatively income elastic, for example food and other consumables such as domestic chemicals, will face the steady market demand which characterises classic oligopolistic non-price competition. Further, the production of these goods has a relatively low technological content and competition is mainly through product differentiation and marketing. Therefore these types of firms, may have less of an impetus to move than other firms because location is based on the servicing of specific markets and competition is relatively stable.

On the other hand firms that produce goods for which demand is income and price elastic and where competition is characterised by the constant need to upgrade products and processes, will be continually under pressure to lower costs and seek new sources of knowledge. Under these circumstances the pace of restructuring is likely to be more rapid as managers constantly review what, where and how they produce. Therefore these firms are likely to be sensitive to downturns in the world economy and problems of overproduction. Localities that contain such firms in their portfolio of investment are more likely to be involved in inter-regional competition either to retain firms or win new rounds of investment. Finally the durability of investment will be subject to the vagaries of mergers and acquisitions, which will be conditioned by the point in the merger restructuring life cycle that a firm (or subsidiary) finds itself.

The nature of competition in terms of how far it is driven by accessing low costs or gaining market access will have an impact on the locality. Firms locating on the basis of low labour costs, locking firms into low value added operations have been assumed to bring fewer benefits than 'bridgehead' investments associated with market access which may demand a wider range of quality functions (Grabher, 1992). In particular, it is suggested that the labour process of firms who locate on the basis of seeking low labour costs will bring poorly paid, routine and repetitive work involving low levels of training, which would bring few linkages with suppliers in the region. By contrast, firms locating on the basis of market access or to gain know-how from a locality are likely to bring qualitatively superior employment opportunities that involve training and development and will enhance the human capital of the region.

3.2.2 Networks

A second dimension of structural influences on embeddedness is the way in which firms are part of a complex web of interrelationships. Recent literature suggests that there should be a shift in the focus of analysis from individual units of capital to networks (Grabher, 1993). Castells (1996) suggests that this intricate web of relationships is so important that that 'networks are the fundamental stuff of which organisations are made' (ibid:168), and that rather than talking about TNCs we should talk about international networks to capture the myriad of firm's relations across borders. Teece (1998) suggests that changes in internal structures and the proliferation of interfirm agreements have produced new hybrid organisational arrangements which '.....may well represent a new and dramatic organisational innovation in business history' (ibid: 158). Although networks are ubiquitous in capitalist (and other) economies and have taken a wide variety of forms since the industrial revolution, recent changes in industrial restructuring have elevated networks to a level of new importance and put them at centre stage of industrial complexes.

The purported increasing importance of networks has crucial implications for the potential impact of FDI on regional development. Sabel (1988 and 1994) suggests that the vertical disintegration of large TNCs has resulted in autonomous small and medium firms, where subsidiaries now come to represent quasi-independent companies. The argument suggests that the reorganisation of large firms in the past two decades has encouraged regional embeddedness by creating opportunities for small and medium sized firms to cultivate long term supply relationships. Scott identifies,

> ....the tendency for internal economies to give way before a progressive externalisation of the structure of production under conditions of rising flexibility, [which] leads at once to a revival of proclivities to locational convergence and reagglomeration (Scott, 1988: 175)

According to Best (1990) the new competition is manifest in a variety of interfirm complexes which range from groups of Italian firms linked by cooperative associations for joint marketing to giant Japanese organisational structures. The vertical disintegration of large firms through outsourcing and subcontracting opens up the possibility of permutations of large, medium and small firms in cooperative and competitive relationships. These interfirm networks are endowed with many benign properties. First, they are inextricably linked to the notion of the new competition in that they offer the possibility of developing learning within the network, where there is consultative coordination of mutually dependent firms, as both suppliers and buyers are a source of ideas. This production network is best viewed as a learning system which minimises transaction costs by fostering high trust relations typical of clans, socially constructed markets and productive communities.

It is argued that the possibility of firms adapting and innovating is enhanced, and market forces can be stimulated, propelled and harnessed for the common good. Technological and decentralised learning are facilitated and encouraged by decentralised supplier networks. Formal and informal associations between the parent and supplier firms are a means of transferring organisational innovation such as JIT, which requires consultative and sustained coordination across producing units. Further, networks and interfirm competition and their institutions offer liberatory possibilities for workers as there is now a blurring of the role between workers, technicians and managers (Sabel, 1994; Cooke and Morgan, 1998). Therefore, it is argued that the participation of small and medium firms with an emphasis on coordination and competition embed firms in the locality offering the possibility of regional competitive advantage or regeneration.

However, the claim that networks offer developmental potential for localities needs to be treated with some caution (Lovering, 1999). Markusen (1999) identifies the agenda as being one that needs to address the missing social relationships, and identify these 'fuzzy' relationships and the power relations within them, in order to unpack what their implications might be for local and regional development.

> ....in regional accounts, networks are presented generically and extolled without examining the motivations of participants, mapping who might be included and excluded, analyzing unequal power relationships among members, or gauging the durability or fragility of relationships' (ibid: 878).

In line with this thinking, supplier networks are singled out for further discussion because of their potential contribution to employment in a locality.

3.2.3 Supplier linkages

The literature that focuses on deverticalisation and the importance of locality as a source of learning, claims that this has made for more extensive and qualitatively superior linkages between firms and their suppliers (Cooke and Morgan, 1998). It is the case that the tendency towards lean production has led to a fairly general shedding of firms' non-core activities and in house operations, both along and between value chains, to specialise in those areas in which firms perceive they have a competitive advantage. Managers have vigorously pared down the mix of activities central to the firms existence and relegated the rest to positions at a greater distance from corporate headquarters. A range of activities from the manufacture of components and peripheral products to computing and payroll services have been increasingly outsourced. While this has spawned a whole new series of networks, it has not necessarily created circumstances in which small and medium firms can take up the slack. As part of the drive for efficiency in logistics firms have aimed to rationalise their supply chains by seeking longer term relationships with fewer first tier suppliers with preferred status, which in many cases are equally large TNCs (Amin and Dietrich, 1990; Rainnie, 1993; Mytelka, 1998). Demands for quality often require levels of investment that preclude smaller firms from participating in the game. This is not to deny the existence of networks involving small and medium suppliers but it does not imply an equal or symbiotic relationship because big firms are at the apex of these partnerships and wield a disproportionate degree of power and control, in what Mueller and Loveridge (1997) refer to as the externalisation of coercion.

Recent studies of suppliers in the automotive sector suggest that there are emerging trends that do not work in favour of local embeddedness. First, there has been an increased tendency towards specialisation (Sadler, 1999) with the result that a small number of components manufacturers command a very high share of the world market, with some branches in the sector dominated by between three and six firms. Aller *et al* (1999) suggest that cost cutting requiring suppliers to assume responsibility for system development has demanded economies of scale which in turn has driven mergers and acquisitions. Second, there has been a tendency towards internationalisation whereby firms have sought to expand their production of components outside of Europe to access low costs with an estimated reduction in employment in the European components industry of 25 per cent by 2010 (Sadler, 1999). The result of this has been to undermine relationships with local suppliers, for example in the German auto industry the search for competitiveness and internationalisation of some sectors led to the abandonment of long term domestic supplier relationships (Mueller and Loveridge, op. cit).

In their comprehensive review of recent studies, Young *et al* (1994), report a remarkable degree of similarity in the impact of FDI on suppliers in localities. They find no evidence of dense local linkages or extensive relationships between firms and suppliers from FDI. They conclude that the direct effects of FDI on recipient firms in the host country have been positive, with improved availability of funds, improved financial techniques, technical help and marketing skills which tended to be on balance favourable to the acquired companies. On the other hand the spillover effects, especially with respect to local sourcing have been very disappointing.

Therefore structural factors will have important direct and indirect effects on the labour market. The nature of competition will affect the number of jobs and the stability of employment, the type of work on offer, wage levels, training and factors relating to the upgrading of human capital. Further, the importance of multiplier effects in the local economy will depend on the extent to which first and second tier suppliers are local, how far new suppliers have arrived in the area and the quality impact on local suppliers. Changes in the nature of competition may also have negative impacts on employment levels depending on whether the arrival of foreign investment brings competition that provides a stimulus and demonstration effect or whether an uneven playing field emanating from the accrued ownership advantages of incoming firms, results in job loss elsewhere in the local economy.

3.3 CULTURAL INFLUENCES ON EMBEDDEDNESS

The second set of factors influencing a firm's embeddedness in a locality are cultural. A firm's culture can defined as 'shared collective understandings in shaping economic strategies and goals' (Zukin and Dimaggio, 1990). It is that set of social conventions embracing behavioural norms, standards and customs and the rules of the game underlying social interaction within the firm (Schoenberger, 1994). The cultural embeddedness of the individual firm will be an amalgam of management techniques (coloured in the short term term by various management fads), institutional conditioning of the country of origin (Kristensen, 1997), the idiosyncrasies of agents within the firm, and contestation by local workers and managers as they cross national boundaries. The main concern here is the process of entering new institutional contexts, where the incoming firm has to negotiate with or around existing established behaviours and understandings. In other words as firms cross national boundaries they need to introduce and establish new material and discursive practices in the firm through restructuring management practices and changing workplace habits and norms.

Firms have also sought to restructure various aspects of their internal organisation to become more responsive and react quickly to changes in the market. As firms operate increasingly across national boundaries, there are important issues relating to entering new markets and acquiring new assets, and how to manage operations over wider geographical areas embracing different institutional and cultural set ups. As we saw in the previous chapter Thrift (1998) explains this new learning in terms of the notion of intellectual circuits of capital by which he means that set of discourses that underpin circuits of production and financial capital promulgated by the transnational capitalist class (Sklair, 1997). However, while it is possible to identify some general elements that comprise such discourses, such as competitiveness, globalisation, deregulation and so on, each firm will have its own distinct corporate culture.

3.3.1 Internationalisation strategy

The first dimension of cultural embeddedness relates to internationalisation strategies, that is how firms cross national boundaries to establish new production or sales. Firms have exhibited different preferences for greenfield developments or brownfield acquisitions, and the mode of entry may influence the extent to which past legacies and linkages are preserved and built on. Greenfield investments enable incoming firms to import production and management methods from the home country or elsewhere in the global network, which may circumvent or rupture existing linkages, while brownfield entry via privatisation methods may build on and develop old networks (Grabher, 1994 and 1997). Further, the process and outcomes of negotiations at a local and national level regarding entry (greenfield) or the acquisition of existing assets (brownfield) affect the nature of local embeddedness.

The second aspect of internationalisation strategy relates to the methods used by firms to establish their corporate culture and collective understandings in a new context. In the case of brownfield acquisitions the restructuring of the existing firm may need to be undertaken to bring its organisation and norms into line with those of other subsidiaries. The extent to which firms transfer existing models, how far they consciously attempt to replace existing behaviours and methods used to effect organisational change will have implications for their sensitivity to local institutions. Also important for embeddedness is how far firms draw on local tacit knowledge which will be influenced by whether agents of change are locally recruited or 'imported' in the form of foreign consultants or expatriates. External expertise such as consultants or agents of change from elsewhere in the company may be used to identify best business practice within the organisation which is then cascaded to other parts of the company. Techniques such as benchmarking allow firms to quantify their relative efficiency in any process and this results in internal performance league tables and best practice transfers which may push in the direction of homogenising managerial and work practices. Even where local personnel are used central management programmes involving training, meetings and social events to build managerial networks are used to inculcate middle and senior managers with loyalty to the corporate culture of the firm, while distancing locally recruited personnel from the general concerns of the local community.

3.3.2 National business systems

While the last two aspects of embeddedness may be viewed as the idiosyncrasies of particular corporate cultures, a broader aspect of cultural embeddedness relates to how far transnational firms are imprinted with the habits, norms and routines from their country of origin. Whitley defines national business systems as "......distinctive configurations of hierarchy-market relations which become institutionalised as relatively successful ways of organising activity in different institutional environments" (1994). However, firms are not merely transmission belts for new forms of business and work organisation across national boundaries, and in recent years a significant body of analytical literature has strengthened the theoretical and empirical underpinnings of the notion of the distinctiveness of 'national business systems' (Sally, 1994; Whitley, 1997 and 1998; Lane, 1998). It is argued that different elements of business systems interrelate in a complex whole, giving characteristic patterns of business behaviour in different countries which persist over time in such areas as corporate governance, managerial structures and labour market issues. Lane (ibid) looks at the way in which TNCs have moved along a continuum between being nationally embedded and globally oriented TNCs, and how the degree of implantation in national policy networks influences the internationalisation strategies of companies, the degree of foreign investment and the nature of competitive advantage. According to Ferner (1997) the key analytical question is how far such national differences in business systems inform the behaviour of TNCs from different countries.

Although the development of the characteristics and attributes of firms is path contingent, Pollert (1999) criticises the notion of 'national business cultures' for being static. There are a number of constraints on the assimilation of the home business culture by the host country and reasons why the correspondence between features of national business systems and TNC behaviour is likely to be incomplete. First, some elements of the national business system make little sense in isolation from the constellation of features in which they are integrated in the home nation. In other words some norms, habits and conventions are not exportable because they are rooted in cultural assumptions. Second, 'local isomorphism', that is resembling and reflecting the local environment, is more likely in certain areas of HR because of the constraints of host country regulations and practices. On the other hand issues such as wage determination, hours of work, job contracts and redundancy procedures are highly subject to local institutional arrangements and are therefore less likely to be stamped with the influence of the home country. Other aspects of industrial relations and HRM such as payments systems, management development or employee communication are generally less likely to be regulated by the local system and are more susceptible to country of origin factors.

Third, elements of the 'home' culture may be contested by various actors from the host country, for example governments may negotiate local sourcing agreements as a condition of entry and local management may consciously or unconsciously resist particular work practices or arrangements (Hibino, 1997; Sharpe, 1997). Fourth, firms may have located abroad precisely to avoid institutional factors in the home market where conditions may appear to be overly restrictive, such as a high social wage or rigid regulatory structures. Fifth, national culture is not static and firms change as a result of moving across boundaries and this adaptation may itself be a source of learning and adopted by the parent plant in the home country through an iterative process. Therefore international competition and the globalisation of production systems may lead to increasing convergence between TNCs of different origins. Indeed TNCs by transmitting practices across national borders, may be seen as key actors in the homogenisation of national systems and the erosion of the country of origin difference, through a process of 'denationalisation' Whitley (1994) or 'coercive isomorphism' (Powell and DiMaggio, 1991). Although technologies of production and work are not dictated by a movement to some sort of globally optimal best practice, it may be the case that (some) sectoral specificities of competition may outweigh national characteristics.

The imprint of national business systems on firms investing across national boundaries may have implications for their embeddedness in localities. Nationally derived corporate policy on supply strategy and the extent to which home based corporatist views towards local communities and trade unions are imported for example, will affect the nature and extent of linkages with the local economy and institutions. The extent to which foreign investors transfer practices may relate to the depth and spread of internationalisation of the individual firm and the closeness of its institutional ties in the home country. Those firms which have a long history of internationalisation, are more likely to have developed characteristics, strategies and practices different from those firms which have developed closely with national institutions.

3.4 COGNITIVE FACTORS INFLUENCES ON EMBEDDEDNESS

A recurring theme in previous sections has been a shift in emphasis in the literature towards the notion of the learning firm with a focus on corporate renewal, knowledge management and the development of core competences. The focus on the learning firm represents a convergence of literature from organisational behaviour, strategic management and economics as well as geography and evolutionary thinking. Learning, rather than being seen as the accumulation of pieces of information, is viewed as a process of problem formulation and solving. Recent HRM (Human Resource Management) practitioner literature is replete with articles on the learning firm and accessing knowledge from employees (MacLachlan, 1998; Mayo, 1998) and there is an explicit recognition of tapping into the local; "The trick is to achieve a balance; to combine the strength of local knowledge with global reach." (FT Oct 8 1997).

Although reservations have been expressed regarding the notion of the learning firm (Hudson, 1999), two issues related to cognitive processes are pertinent to how foreign investors embed themselves in new situations across national boundaries. The first set of arguments relates to the notion of regions as a source of tacit knowledge to enhance the competitive advantage of firms. The second set of issues relates to how firms can stimulate and generate learning and innovation within the organisation from changing patterns of governance.

3.4.1 Regions as a source of tacit knowledge

Amin and Cohendet (1998) point to a strand of literature which claims the superiority of relational and geographic proximity (industrial clusters and districts) over formally constituted networks of knowledge and learning based on ubiquitously available products of education, science and technology. Thus while highly specialised knowledge relating to applied technology appears to be mobile and can be decoupled from location, tacit knowledge involves a large number of actors within a local cluster and is path dependent to local circumstances, unique relationships and accumulated routines. This strand of thought is focused on the rediscovery of regions as a source of localised knowledge and in particular, tacit knowledge. According to this view highly dynamic local regions draw extensively upon localised assets for competitiveness (Saxenian, 1994; Asheim, 1997; Kirat and Lung, 1999; Maskell and Malmberg, 1999a and 1999b). This literature points to the conclusion that in a global economy in which the codified knowledge offered by science and technology is increasingly easy to access, uncodified knowledge rooted in relations of proximity gives an advantage in deriving and maintaining competitive advantage (Amin and Cohendet, 1998; Porter and Solvell, 1998; Zanfei, 1996). Thus firms need to take root in different contexts, in order to gain access to local resources and competencies, and to absorb stimuli deriving from local applications. Local relations and proximity open up the possibility for frequent and intensive interactions and shared understandings that derive from similar cultural norms, beliefs and practices leading to easy communication and trust based relations. These 'untraded dependencies' include the industrial atmosphere of a place such as local networks, local institutions and culture (Storper, 1995). Deep knowledge of a locality may highlight technical and organisational constraints and bottlenecks to be solved. Therefore placing roots in local contexts requires that subsidiaries develop extensive networks of relations with industrial, economic and institutional agents, based on mutual trust and on the creation of intense information flows.

There have been extensive critiques regarding the existence and properties of agglomeration and industrial districts. Studies which show a high degree of local learning and trust are criticised for being regionally and sectorally selective (Grabher, 1993; Baker, 1996; Markusen, 1996). There are three sets of arguments that can be advanced to challenge this view of localised learning. The first set of arguments see firms as adversarial rather than cooperative in the sharing of knowledge and learning. In her criticism of Saxenian's (1994) study of Silicon Valley, Markusen (1998), in contrast to 'fuzzy' boundaries between firms, sees a highly competitive regional economy with strong property rights reflected in a high incidence of law suits. Further, in contrast to the cooperative learning milieu painted by Best (1990) and Sabel (1994), Pottier (1988) investigates the linkages and synergies brought about in the Greater Grenoble district in micro processing and electronics where he concludes that informal networks do not translate into cooperative relations. Large firms, in effect disembed small firms from the locality by watching the creation of innovative units, taking control of them and then terminating or diminishing their ties with the local area.

The second set of arguments relate to the internationalisation of research and development. In their review of recent literature Blanc and Sierra (1999) provide a rich and nuanced account of locality and the search for knowledge across national boundaries. The following arguments advanced are salient. While acknowledging the importance of relational proximity in a locality, they suggest that external proximity, which is not reducible to geographical proximity, forms the basis of the transnational firm's external organisation that is designed to scan and absorb foreign R&D. In addition, they highlight sectoral differences in the devolution of R&D functions and the way in which research, development and customisation are different processes. The development stage of software and pharmaceuticals, for example, are labour intensive, routine and can be outsourced (Lakha, 1994). Further, they suggest that although it is not a substitute for geographical proximity, organisational proximity in the form of technology (electronic mail, video conferencing and work stations) can achieve the organisational advantages of centralisation on a decentralised geographic basis.

The third set of arguments relates to the use of strategic alliances as a way of accessing knowledge now viewed as central rather than peripheral to the global strategies of firms (Dicken, 1998). These alliances are different from the traditional form of cartel and other oligopolistic agreements in that they concern specific times, markets and products and processes and do not exclude competition in other areas. They are particularly relevant in high tech industries as the cost of research and development have risen sharply and where access to privileged information is increasingly difficult in industries where innovation is the main weapon. Strategic alliances are driven by increasing financial and political barriers to market entry, the need to accelerate product development times and accessing know how embedded in competing organisations.

Therefore issues related to trust and cooperation, the literature on the internationalisation of R&D and the increasing importance of strategic alliances temper the claims of the new regionalists, which suggest a correlation between localised learning as a source of competitive advantage and the increasing propensity for firms to be embedded in localities.

3.4.2 Organisational change and learning

While firms have looked to localities to access tacit knowledge, they have also focused on internal organisational change to elicit tacit knowledge embedded in employees at all levels of the firm's structure. It has been argued that traditional hierarchical structures are a block on learning and innovation and that there are therefore limits to classical modes of organisation. Internationalisation means a quantum jump in uncertainty and change which makes freezing structures more difficult and the M form firm requires freeing from the restrictions of the divisionalised structure. It is suggested that M form firms are not good at capturing what goes on in TNCs in that knowledge changes much more quickly than structure (Hagstrom and Hedlund, 1998). As local contexts become richer in terms of the potential contribution they can offer to a transnational firm's competitiveness, the centralisation of information and strategic decision becomes unfeasible and ineffective and impacts negatively on the number and variety of learning patterns. Giving greater autonomy to subsidiaries, it is argued, would instead create a structure of incentives that is more conducive to experimentation and innovation (Lindquist, Zander and Solvell 1996).

Organisational change is reflected in a menu of arrangements which include special business units, micro new ventures departments and profit centres, and Teece (1998) suggests that these designs imply smaller, flatter and more specialised structures within which to conduct activities where speed and responsiveness are critical. Amin and Cohendet (1998) and Hagstrom and Hedlund (1998) suggest that the problem associated with hierarchy on the one hand and decentralisation on the other has led to the development of parallel structures composed of structures of decentralised reflexive and interactive centres to advance core competences and learning, overlaid upon a more traditional hierarchical structure for the regulation of non-core activities. Thus strategy is the prerogative and responsibility of the positional top, but because knowledge is so diffused and concentrated further down in the positional structure, strategies and action have to be initiated in the middle.

> The archetypical action unit becomes the multiskilled, multiknowledgeable and temporary project team.....these need to be protected from the influence of the line and led by strong people. Indeed here we find a flat and temporary - but very strong mini hierarchy (Hagstrom and Hedlund 1998:180).

Therefore it has been argued that in this more turbulent and competitive environment we are witnessing the emergence of a new type of TNC which differs from those which predominated earlier periods (Bartlett and Ghoshal, 1989; Dicken, 1998). This complex global model is characterised by an integrated network configuration and a capacity to develop flexible coordinating processes. These capabilities apply both inside the firm which, it is argued, displace hierarchical governance relationships, as networks of relationships which comprise social capital become more inclusive and egalitarian. These changes have been translated by some as heralding a uniform move from hierarchy to heterarchy, for example Cooke and Morgan (1998) suggest that HQs have relinquished their role as monitoring devices to become 'architects of communications' in order to tap subsidiaries as a source of product, process and organisational innovation. Similarly Dunning (1997) argues that the head office has become less a centre of control and more a means by which the constituent parts of the organisation make their inputs into the decision making process.

A second aspect of accessing knowledge that has implications for the locality relates to the role and autonomy of subsidiaries. It has been suggested that autonomous, flatter structures coupled with the 'empowerment' of employees have been manifest in moves towards the increasing use of global subsidiary mandates (Roth and Morrison, 1992). In this case the subsidiary assumes a greater autonomy, being given worldwide responsibility and strategic control for a product or product line. Thus rather than centralised control being exerted over subsidiaries, the control is segmented by product line and distributed amongst different subsidiaries, depending on their particular capabilities and competencies. In what Forsgren and Pahlberg (1992) refer to as multi-centred governance, the locus of control is shifted while interdependency remains. The role of the parent company is altered, as headquarters devolves direct control of its products that are to be managed by subsidiaries with mandates. Thus, the role of the parent company shifts to managing dispersed strategic processes, ensuring that subsidiary strategies fit the overall corporate goals, and provide the freedom required to support the mandates.

Therefore the literature does not suggest a unidirectional tendency from hierarchy to heterarchy, rather a complex tangling of formal hierarchical and less formal structures. The overall conclusion of this literature is that the need to tap into local knowledge suggests an increased tendency for the restructuring of firms to go in the direction of increased local autonomy, local embeddedness and engagement. However, a closer examination of the specific and concrete forms that restructuring has taken which have been interpreted as indicators of increased autonomy may be less propitious than some accounts suggest.

3.4.3 Innovation as consensual or coercive

Innovation is portrayed in much of the literature as a consensual process, however this may underestimate how far learning within firms may take place as result of a significant degree of coercion from the market. Certain types of learning, at least, are driven by organisational innovation which may distinctly limit the parameters of learning. Birkinshaw (1998) and Birkinshaw and Hood (1998) link the move towards global mandates with the increasing role played by competition within the firm in an attempt to create an internal market mechanism. Galunsic and Eisenhardt (1998) look at how charters are used in fast paced environments such as high technology to bring about change. In the start up phase of a new initiative, charters are used to stimulate intensive competition between divisions to create viable businesses. In the maturity phase, once dominant divisions who had lost touch with their market were involved in "a wrenching charter battle between competing divisions". Phelps and Fuller (2000) note that the focus of interest has mostly been on inter regional competition for mobile and greenfield investment, whereas the majority of investment by TNCs continues to be repeat investment which involves firms and regions in different sorts of locational tournaments. These repeat investments are the main mechanism through which restructuring and the corporate division of labour are defined and redefined. Mueller and Loveridge (1997) suggest that when corporate management employed new investment decisions plant level actors were left with little choice but to embrace radical change. Learning was accelerated because of the force exerted through the internalisation of competitive markets which disrupted existing institutional arrangements.

Benchmarking is a mechanism that allows firms to quantify their relative efficiency in any given process or activity, and internally this results in performance league tables, and best practice transfers. In this case freedom for manoeuvre from HQ is replaced by the despotism of the market and a different form of competition, which Mueller and Loveridge (1997) refer to as internal coercion. The implications for local autonomy are that rather than giving flexibility and room for manoeuvre in the locality, the managerial performance of each division is measured in terms of a rate of return on capital from each division. The function of central management is to monitor performance and allocate resources, labour and managerial skills and finance and to award contracts in relation to the present or estimated future profitability of each division.

Coller and Marginson (1998) highlight the importance of 'unobtrusive' channels of influence or coercive pressure. First, Marschan, Welch and Welch (1996) suggest that TNC control can be centralised through the use of expatriates who have internalised corporate norms and values. Thus transferring expatriates, who may be trusted to implement corporate policies and procedures, are *de facto* centralising mechanisms. The second 'unobtrusive' pressure on subsidiaries is the system for transferring best proven practice (BPP) across plants. A group of internal consultants identify successful practices (BPP) within the organisation and these are then made available across the TNC and regarded by local management as part of the menu of options to address local problems. Third, the building of managerial networks, underpinned by a central programme for management recruitment, training and development, reinforces conformity and corporate loyalty. These networks not only serve the purpose of developing managerial skills, but also of socialising managers into the company way of doing things, initiating newcomers in the firm's discourses and including them in the new and changing social capital of the firm.

Moves towards less hierarchical structures and networked relationships between different divisions have been interpreted as opening up the possibility for firms to be more deeply embedded in localities. However, accounts purporting that changes in the internal organisation of firms, either in the direction of flatter structures or more autonomous subsidiaries, have either been oversimplified or failed to pay sufficient attention to the details of the form they have taken. The trend towards pushing responsibility further down the organisational structure of firms, particularly reflected in the move to profit centres, has underestimated the extent to which innovation has been heavily directed towards cost reduction and increased efficiency. Rather than talking about the embeddedness of a firm in the locality, the survival of subsidiaries in the context of ongoing internal competition may depend not only on tapping into local sources of tacit knowledge, but also an intensification of work within the organisation.

3.5 INSTITUTIONAL INFLUENCES ON EMBEDDEDNESS

Institutional factors will have a direct bearing on the economic direction and policies of firms and their propensity for local embeddedness. In this context we are interested in the manner in which economic institutions and decisions are shaped by a struggle for power that involves economic actors and non-market institutions, such as the state at a national and local level, and different social groups. This section looks at the way that the strategies of industrial sectors and individual firms take account of, among other factors, the policies of the national and local state, the balance between regional employers and the willingness of the local labour force to tolerate change.

3.5.1 National and local states

In some quarters it has been suggested that the globalisation of economic coordination and control has heralded the decline of the nation state and its national institutions as influential agencies in the structuring of economic systems (Ohmae, 1990 and 1996; Kobrin, 1997). At the other extreme there are those that posit the resurgence of regions in the context globalising trends and as we saw earlier it has been suggested that the intensification of competition has led to firms needing to be embedded in localities in order to access tacit knowledge that is central to the new competition. It follows that this demands an enhanced role for local and regional authorities in providing the appropriate physical infrastructure and institutional cement in which to embed firms. Thus intelligent and learning regions are imbued with an increased potential to interact with incoming foreign investment and pin down the global (Morgan, 1997). However, Hollingsworth and Boyer (1997), Jessop (1997) and Hollingsworth (1998) argue that the dramatic increase in societal complexity, means that capital needs to be coordinated and nested in all spatial levels simultaneously. The nation state is only one element among several spatial scales where no one level dominates and where no one level should be privileged in explaining the embeddedness of capital. Jessop suggests that, 'The state is no longer the sovereign authority for meta-governance, merely one element' (1997:117).

This process of nestedness is complex and contradictory and there are distinct variations in the way in which companies have managed the pressures and tensions of globalisation. Different sets of capitals need different sets of organisational arrangements and rules in which to operate on a sectoral basis depending on the size of the market, governance of the sector and relative strength of the firm. Strong states are likely to push for the liberalisation of trade, whereas other states will try to protect weaker sections of their national economy from what they see as the predatory designs of stronger capitals. Therefore governments are not undifferentiated and coherent monoliths and their regulatory structures will be determined by the presence and nature of development strategy, the salience of the investment and the intensity of competition for investment (Phelps and Fuller, 2000; Tewdr-Jones and Phelps, 2000).

Despite the need for firms to engage with institutions at different spatial levels the role of the nation state remains central. There is an extensive literature which looks at capital and its embeddedness in national institutions. Sally (1994), Whitley (1997) and Lane (1998) locate firms in their institutional environments, and argue that they are embedded in networks of relations with a number of important institutional actors at a national level. Any capitalist state must perform certain functions in order to facilitate capital accumulation (from within or outside of its boundaries) which in turn legitimises its existence and enhances its position. The strength of the economy and the prestige of states lies in the scale and competitiveness of capitals, both domestic and foreign that lie within their ambit. Yeung (1998a and b) suggests that the question is not whether the internationalisation of capital has brought about the demise of the nation state but, rather how the state continues to participate in capital's internationalisation. As Stopford and Strange (1991) point out this implies not a diminished but a different role for the state as the number of linkages multiplies. Murtha and Lenway (1998) suggest that paradoxically a home base is more important to companies in the era of heightened global competition because this is where essential competitive advantages of the enterprises are created and sustained. Finally, because the appropriation and domination of markets is not a natural or automatic process, but rather socially and politically constructed, firms require a range of policies with respect to international trade and expect the government to negotiate the rules of the game in their interests.

Therefore as far as foreign investment goes we need to understand that firms are reflexive and strategic in their negotiations with states, and that these relationships need to be forged and cultivated at a number of different levels. Crossing borders is a fundamentally political act that requires negotiation and interaction with a series of economic actors and political stakeholders manifest in direct political activities such as lobbying (Coen, 1999). Mytelka (1998) suggests that there are three new features characterising contemporary locational tournaments and competition which have a bearing on localised learning and innovation potential. Firstly, a widening range of incentives are offered to non local investors by an increasing number of industrialised countries. Secondly, that this competition extends to all levels of government. Thirdly, there has been a diversion of attention from the promotion of locally based activities towards the use of local, state and national funds to attract foreign investors.

What this suggests is that TNCs and their affiliates have become much more sensitive to opportunities for influencing and exploiting the disposition of local and national systems of governance towards attracting and embedding major inward investment. There is growing evidence that these major projects are conceived and negotiated in a politically sensitive way that has not been the case before. The increasing intensity of competition for mobile investment coupled with the increasing ability and desire of inward investors to read local policies highlights some of the limits of local institutional capacity building to effect local economic development (Phelps 2000a). Policy initiatives aimed at embedding incoming foreign investment entail a commitment of local capital and public resources in the service of the competitive goals of the incoming company, and TNCs will actively seek out social and cultural settings that shift the cost of reproducing labour power onto local societies and states (Hudson, 1995).

With regard to the implications for embeddedness negotiations where local actors are centrally involved are more likely to produce an outcome that is sensitive to local development than those where only national considerations predominate. In some cases local participation has been illusory, for example in the case of the location of Lucky Gold in South Wales Phelps *et al* (1998) suggest that what appeared to be a negotiation between the locality and the firm was a decision heavily influenced by national government. Further, coalitions at a local level need to have a degree of autonomy both politically and financially, with regard to the centre. Bargains between firms and politicians or bureaucrats at the national level are less likely to be concerned with local issues, because national actors will be attuned to competing claims by different pressure groups that may outweigh regional considerations. With the caveat that localities are not homogenous or without conflict, it is more likely that there would be a coincidence of interests of the local arm of the transnational capitalist class, workers and local government officers rather than coalitions that lie outside of the region.

3.5.2 The importance of non-state institutions

The importance of institutions in the locality extends beyond the role of the local state to what Amin and Thrift (1995a) refer to as institutional thickness. On one level this refers to;

> ....a plethora of institutions of various kinds (including firms; financial institutions; local chambers of commerce; training agencies; trade associations; innovation centres; clerical bodies; unions; government agencies providing premises, land and infrastructure: business service organisations; marketing boards), all or some of which can provide a basis for the growth of particular local practices of local representation. (Amin and Thrift, 1995a: 14)

The existence of these institutions is a necessary but not sufficient condition to embed firms, and according to this view these bodies need to be cemented by cooperation, frequent interactions, trust and cohesion. Where these institutions are collectively able to establish trust and shared goals and direction, they are more likely to have the capacity to attract foreign investment and retain it into the locality. The overall effect is to construct and deepen a pool of knowledge that is both formal and tacit, and therefore these institutions are a repository for a range of collective and economic practices in a locality. However, there is no automatic correlation between institutional thickness, economic development and attracting and embedding firms. This 'thickness' where it expresses a past trajectory or set of trenchant power relations may be an obstacle rather than an aid to new processes and structures.

Beyond non-state formal institutions, the extent and nature of linkages of foreign investors will be shaped and mediated by the predominant informal institutions of the host economy. While these might include the legal framework and regulatory structures concerning competition, ownership and labour, also of concern are informal institutions and in particular the prevailing collective understandings about the nature of economic action. Informal institutions may be important for explaining how the actual conduct of business differs form official versions enshrined in the legislature. Negotiating entry for foreign firms may have much more to do with politics and speaking to the 'right' people than formally laid out procedures. Whitley (1990) identifies two key groups of characteristics used to define systemic differences. First, those that reflect general and underlying principles of trust, cooperation and coordination which have become institutionalised, either through being codified in law or as they form part of collective understanding about economic behaviour. These are usually derived from: a) the preindustrial political system, b) the traditional elite attitudes towards privately controlled concentrations of wealth and, c) the organisational control of industrial activities (Whitley, ibid: 21). Second shared social responses to these exercises in power break down into six dimensions (i) Degree and trust between non-kin (ii) Commitment and loyalties to collectivities beyond the family (iii) Importance of individual identities rights and commitment (iv) Depersonalisation and formalisation of authority relations (v) Differentiation of authority roles and (vi) Reciprocity, distance and scope of authority relations. These background and proximate institutions will have both a national dimension and a local character which results from a territorially constituted group of actors.

Uncodified understandings about the conduct of economic behaviour are important to associative life and business activity, which could take the form of informal networks between large firms and the business community in general. If firms locate to draw on the industrial atmosphere then local developmental potential could be enhanced in a number of ways. The benefits firms derive from external economies of scope and scale and untraded dependencies will increase their competitiveness and reduce their transaction costs through the trust that is fundamental to such networks, thereby reducing the incentive for firms to move to another location. Norms, habits and conventions are not static and hermetically sealed and the presence of incoming foreign firms will enhance, augment and change the nature of social capital in locality. Shifting the collective understandings about the nature of economic action through bending informal institutions may increase the attractiveness of the locality for other potential investors and contribute to a process of virtuous cumulative causation (Myrdal, 1957).

The view that suggests a strong relationship between institutional thickness, social capital and the embeddedness of firms is underpinned by the assumption that incoming firms will be locally integrated on a consensual and semi-corporatist basis. However, foreign investors, individually and collectively, through their own networks may bring a different set of understandings about economic behaviour that do not necessarily coincide with the prevailing habits and norms of the locality. This may be particularly manifest in understandings about the formal and informal institutions of the workplace, to which we turn in the next section.

3.5.3 Workplace institutions

It has been suggested that the role of workers, both organised and unorganised, plays an important role in shaping and responding to the increasing internationalisation of production systems (Herod, 1995, 1997 and 1998; Swain, 1998; Wills, 1996). Herod (1997) argues that the literature on globalisation has been marked by its absence of discussion of organised labour. While this may be true of economic geography, labour process literature offers important insights into the governance of firms and in particular, localisation as a contested process (Elger and Smith,1994).

Most of the literature associated with the notion of 'learning firms' not only paints a coherent view of management but much is made of increasingly consensual relationships and trust between employers and employees (Best, 1990). Morgan (1998), for example, suggests that Taylorism produced work relations of low trust where workers had a minimum commitment, grudging calculation and measured performance. Experimentation in post-Taylorist social organisation such as lean production is held to be built on learning characterised by an ethos of reciprocal obligation between management and workers. According to Nonaka and Takeuchi (1997) 'Top managers serve as the sponsors of an entrepreneurially minded front line'.

Elger and Smith (1994) suggest that rather than seeing global localisation as a formula which resolves the relation between the global corporation and the local transplant, we need to investigate how the uncertainties and dilemmas of localisation are addressed and the specific forms and combinations of policy which are pursued. In this respect the stages often depicted in celebration of 'global localisation'- the development of local supplier networks, the extension of research and development activities, the customisation of products, the promotion of locals to managerial positions, increasing independence of management policy formulation, local cash generation and retention, and ultimately business diversification are best regarded as foci of potential conflict and contestation in the operation of transplant factories, rather than as a coherent trajectory.

Elger and Smith (ibid) argue that those views which emphasise the resilience of national institutions and their capacity to modify transplant practices have often downplayed the contradictory and contested features of such national configurations. On the other hand those which celebrate the dissemination of innovative best practice have often worked with an idealised and over-coherent conception of the practices involved, glossing over their internal divisions and limitations. In contrast, Elger and Smith (ibid) highlight the problematical character of the managerial repertoire of the parent company, and the tensions and uncertainties in the institutional matrix surrounding the operation of the subsidiary. Rather they suggest that the transplant workplace must be seen as a site of active initiative, uncertainty and contestation, through which company practices are reproduced and transformed. The leverage foreign investors exercise over the 'conduct of conduct' in any institutional arrangement depends on their capacity to secure compliance, through a combination of coercion and cooperation, on the part of other actors to operate in such a manner that is compatible with that of the foreign investor (Swain, 1998). This would include selective recruitment, training, remuneration schemes, internal labour markets and the organisation of work generally.

A central component of the radical institutionalist analysis is the existence of differential power relations within the actor networks that construct the discourses and discursive practices in the firm. Spencer (2000) argues that the negotiation of order in the workplace takes place through both coercion and cooperation, because there are practical limits to how far a workforce can be subordinated, as well as disadvantages in terms of worker creativity. Bowles and Gintis (1976; 1981) suggest that employers need to organise the labour process in order to foster desired beliefs, attitudes and values and knowledge (1981:15) in order to 'make the authority relation appear at best just, or at least inevitable' (1976:82). In establishing and maintaining their competitive position managers engage in enabling myths, in this case discursive constructions, representation and practices to advance particular actions (Yeung, 2000). As we saw in the previous section Mueller and Loveridge (1997) view the trend towards internal markets, whereby operating units are increasingly competing with each other for new investment, as intensifying internalised coercion. Local managers use enabling myths of inter-plant competition and the battle for survival to justify pressure on workers to introduce new labour practices. These arguments become incorporated into the beliefs of workers and their unions, what Burawoy (1985) referred to as hegemonic despotism. Thus hegemony is achieved at plant level not through the participation of the workers in the regulation of employment, but through persuading them to accept the logic of the management system it has established, under which the threat of closure, disinvestment or transfer of production to other more efficient plants is ever present.

These enabling myths, however, may not be acceptable to other social actors in the firm and the workers may pose a counter discourse. For example, Marschan, Welch and Welch (1996) quote surveys which suggest that when employers suggest the enabling myths of 'delayering' and 'empowerment', employees perceive such organisational change in terms of downsizing and cost cutting. Employees in many of the organisations studied referred to past management fads and their implementation failures by suggesting that management would always resort to the use of legitimate power to maintain overall direction. In their study of Japanese transplants in the UK Elger and Smith (1994) talk about 'unveiled management hegemony'. They look at the way in which management had a large degree of success in structuring tasks, instituting flexibility and sustaining low wages by employing a young, inexperienced and pliable work force. However, even in the light of a disorganised and ununionised workforce, management was forced to modify corporate behaviour in response to ingrained habits and unconscious resistance.

The degree to which firms want to shift or bend institutions in the workplace will depend on their corporate strategy. How far incoming firms are actually able to influence or change collective understandings in the workplace, depends not only on the enduring nature of employee habits and norms at an unconscious level, but the role of organised workers as cooperators with or contestants of change. In terms of the impact on locality the outcome of overt and covert conflict over workplace practices will have implications for the number of jobs, the level of wages, the extent of social provision, the intensity of work, security of employment and workplace representation.

In order to explore the enduring nature of employee and managerial collective understandings and the way the global-localisation process might unfold in localities in CEE it is necessary to examine the legacies of State Owned Enterprises, which are now discussed in the next section.

3.6 THE EMBEDDEDNESS OF STATE OWNED ENTERPRISES

The previous sections have looked at influences on embeddedness in relation to firms from market based economies, particularly in Western Europe and the USA. State Owned Enterprises in CEE emanate from very different institutional set ups (Smith and Thompson, 1992). A separate analysis of the embeddedness of these firms is necessary in order to understand the role of foreign investment in their transformation.

Institutionalist approaches have contributed to an understanding of organisational transformation at two different levels of analysis. First, the notion of path contingency has been used to explain, why rather than transforming according to some formula, the economies of Central and Eastern Europe have been characterised by rich and varied institutional matrices. Chapter Two discussed how structural and institutional innovations have involved complex and incremental reconfigurations of institutional elements through a process whereby old legacies recombine with the new (Stark, 1995). The particular form and content of transformation in the countries will depend on their institutional assets at the beginning of the period (Chavance and Magnin, 1997), their paths of extrication (Altvater, 1998; Stark, 1995) and the strategic choices of agents. Thus emerging forms of property and corporate structures are the result of the reconfiguration and rearrangement of existing institutional elements. In particular, there has been the emergence of interwoven forms of ownership with networked modes of coordination and hybrid forms which are neither market nor hierarchy. Rather than a linear process fashioned according to some pre-ordained model, privatisation has given rise to a rich variety of different forms both within and between countries and a wide repertoire of coordination modes.

Second, institutionalists have extended their analysis to the restructuring and transformation of individual enterprises and the reorganisation of corporate arrangements. Modifications in the institutional set-up are two fold. There are changes in the formal institutions in which markets are embedded (legal provision, property rights and so on). In addition, there is the ongoing transformation of the behaviour of agents with the emphasis on informal institutions such as individual habits, collective rules and social conventions (Hodgson, 1988). According to institutionalists the behaviour of economic agents is a product of both present incentives as well as historical processes. Winieckie (1992), Swaan (1996) and Swaan and Lissowska (1996) have analysed the slow adaptation and adjustment of SOEs by suggesting that the stock of routines, behavioural patterns and expectations reflect historical experience and are not suitable for the new environment. These ongoing patterns may have been entirely appropriate for the old world, but do not match the new competitive conditions.

Swaan and Lissowska (1996) identify two influences that may be competing. On the one hand structural impact leads agents to consider a new repertoire of actions, while on the other hand there are factors which discourage a change of routines in the short and medium term. Human constraints put limitations on the speed of learning, and organisations tend to follow routines developed in the past. However, although some have stressed the positive possibilities of recombining local assets and foreign investment

(Grabher and Stark, 1997; Uhlir, 1998) there is a significant consensus among foreign investors that past behaviours constitute a barrier to successful restructuring.

Table 3.2 gives a brief summary of influences on the embeddedness that are specific to State Owned Enterprises. First, the main structural influence on the embeddedness of SOEs at the beginning of the transformation process was their status as monopoly producers. Lack of competition and a shortage economy coupled with the soft budget constraint meant that there were no incentives to efficiency. Further, a high degree of vertical integration meant that although these firms were large, they were unable to benefit from specialisation. A lack of focus on core production and high levels of social provision meant that production was unable to reap the benefits of economies of scale.

Cultural legacies also presented problems for restructuring and change processes, in particular as a result of informal institutions that carried over from the previous decade. In the chaos of the 1980s decentralisation and increased autonomy for SOEs provided opportunities for rent seeking by the nomenklatura. At the same time ambiguous structures of governance had evolved as workers were given increased rights to participate in decision making processes in the firm as part of the post martial law reforms of 1981. The existence of these Workers Councils [3], which could fire managers, meant that there were conservative attitudes to change and a predisposition to maintaining the status quo predominated. A further continuity of collective understandings was found in the commitment to full employment. Making redundancies was seen as an anathema, in that workers were not only deprived of a salary but also access to important social benefits in terms of the routines of production supplied by the SOE.

In terms of cognitive processes, inappropriate knowledge of market concepts existed across a range of management functions such as HRM, financial reporting and marketing. However, the tacit character of organisational knowledge restricted both the ability of a new owner to transfer work and managerial practices and the ability of the existing firm to absorb new knowledge. The ability of firms to adopt new techniques, the existing legacy of human capital and organisational capabilities in post communist economies presented a special problem, since tacit knowledge develops through experience and is closely related to the institutional structures in which it developed. Experimentation and innovation were blocked by hierarchical and paternalistic management and few incentives or autonomy for shop floor workers.

Table 3.2 Influences on the embeddedness of State Owned Enterprises

Influence on Embeddedness	Description	Impacts and Outcomes
Structural influences	Nature of competition	Monopoly
	Networks	Formal and informal
	Supplier networks	Move from high degree of integration to limited deverticalisation
Cultural influences	Continuation of rent seeking behaviour	Personal gain rather than maximising efficiency of profits
	Emphasis on supply and quantity	Poor quality production
	Bermuda triangle of trade union, workers council and board of management	Ambiguous governance and resistance to change
	Full employment	Tendency to hoard labour and reluctance to make redundancies
Cognitive influences	Absence of knowledge about HR techniques	No wage driven incentives, little training
	Absence of knowledge of accounting	No understanding of cost structures at different points of production
	Engineering rather than business training	Lack of exposure to full range of management functions and techniques
Institutional influences	Connections with and control from Ministries at centre	Limited ability to make decisions at local level
	Linkages with nomenklatura	Involvement in rent seeking activities

Source: Author

The important axes of power for SOEs were twofold: first through vertical lines of authority where SOEs were conveyor belts for the investment and production decisions of national level government ministries; and second, through the triangle of trade unions, Workers Councils and managers which resulted in ambiguous governance structures. The overall impact of the specific embeddedness of SOEs is that while they were central to employment and social provision in the locality, local actors had little participation in decisions regarding these monoliths. Therefore these SOEs could be viewed as being economically but not institutionally embedded in localities.

3.7 CONCLUSION: A RADICAL INSTITUTIONALIST APPROACH TO THE FIRM

This section draws together threads from the discussion in this chapter and combines them with insights from the general radical institutionalist approach elaborated in Chapter Two to outline the main conceptual tools that inform a radical institutionalist analysis of the firm.

A radical institutionalist approach is underpinned by a number of assumptions. First, that economic change is path contingent and influenced by political, social and institutional factors. Path contingency is invoked to capture the relationship between structural constraints, and the role of institutional innovation and agency within the firm. In this sense firms are understood to be path shapers within broad constraints. However, this does not imply a simple determinism and firms have multiple logics (Block, 1990), in that there are a range of strategies and tactics that can be deployed in response to uncertainty or a change in conditions.

Zukin and DiMaggio (1990) suggest that although structure is the expression of determination by forces that are larger than life and outside an individual's control, it is necessary to emphasise the variability of institutions that are formed by conscious action (path shapers) or historical accretion (path contingency). Though capital is a driving force and a major resource in the political economy view, it is implicitly embedded in the social-organisational approach to the economy. Therefore while individuals and organisations act within macroeconomic, cultural and societal frameworks, it is institutional and organisational variables that enhance their capacity to produce different outcomes. As we have seen this relates to the cultural and cognitive aspects of firms' behaviour.

The second set of the arguments derive from old institutionalism and radical political economy that focus on power and vested interests that have been slighted topics in institutional analysis (Powell and DiMaggio, 1991; Wallerstein, 1990; Pot, 2000). Grabher (ibid) suggests that asymmetrical power relationships are an essential feature of networks, others point to the existence of coercive processes within the firm, as well more subtle pressures for conformity (Burawoy, 1985; Spencer, 2000). According to Powell and DiMaggio (1991) efforts to incorporate power into institutional analysis begins with two key assumptions: 1) that actors in key institutions realise considerable gains from the maintenance of those institutions and 2) that when organisational fields are unstable and established practices ill formed, successful collective action often depends upon defining and elaborating widely accepted rules of the game. Therefore the acquisition and maintenance of power within organisation requires that dominant organisations continually enact strategies of control either through socialisation of newcomers or via the support of the state and the judiciary. The fundamental idea that characterises this position is that the work setting is seen as a 'contested terrain' with various parties vying for control (Edwards, 1979) and therefore the firm incorporates inherent conflict between workers and employers.

Third, while the tradition of political-economy posits the notion of domination by management, it does not promote a subtle understanding of social control. By contrast the radical institutionalist tradition views the establishment of control as highly problematic. Zukin and DiMaggio (1990) suggest that overall hegemony has little everyday meaning when organisations are complex, environmentally uncertain, and information is in short supply. Radical institutional economics has recognised organisational forms result, not from an implicit logic of economic domination, but as a pragmatic solutions to problems of control that may vary considerably within a single regime. Although capital is viewed as central to the analysis of political-economy, this approach does not have much to say about capital's role in constituting power relations, or about how that role may be modified by sociocultural and political constraints.

In this way we draw on the notion of 'enabling myths' (Dugger, 1989 and 2000) and 'circuits of intellectual capital' (Thrift, 1998 and 2001) which were identified in the previous chapter as an important element of radical institutionalist analysis, particularly salient in transferring new discourses across national boundaries. It was argued that 'enabling myths' are a special form of institution and control mechanism to consolidate or justify a particular set of ideas by legitimating certain kinds of constructs, positions and affective states over others. As firms cross national boundaries circuits of intellectual capital are not only necessary to smooth the path of circuits of productive and financial capital, but also to effect rapid change in situations where managers need to react within a short time scale. Specifically in the context of CEE firms need to develop strategies to disembed and dismantle old legacies of the planned economy and supplant them with a set of ideas viewed as being consistent with the market and global competitive practices.

> A corporate culture is a shared set of beliefs and values inculcated in the corporations employees. The corporate culture reinforces and reshapes the employees desire to get ahead, through loyalty to and hard work for the corporation. Corporate culture is an internalisation of corporate control. So it is a tool of social control (Dugger, 1989: 39).

Therefore radical institutionalists have paid attention to the way in which firms establish corporate culture and their concern is how the values of the firm are internalised and accepted by employees

Before operationalising the taxonomy of the influences on embeddedness posited here, the next chapter contextualises the arrival and impact of foreign investment by outlining the institutional setting of the Wroclaw regional economy. The rebuilding of governance in the regional economy is examined to gauge how far institutions in Wroclaw are able to 'pin down the global' and harness the potential benefits of foreign investment.

ENDNOTES

1 There have been extensive criticisms of the notion of Fordism as a universal template (Glick and Brenner, 1991; Williams *et al*, 1987) and for its inability to capture the unevenness and diversity of economic development (Jessop, 1995b; Painter and Goodwin, 1995, Storper, 1997).

2 Income elasticity refers to the responsiveness of demand to changes in income, calculated by the following formula;

$$\text{Elasticity of demand} = \frac{\text{the percentage change in quantity demanded}}{\text{the percentage change in price}}$$

Where this value is greater than one, demand is income elastic, where it is less than demand is said to be income inelastic.

3 Workers self-management is strongly rooted in the Polish radical trade union tradition. The seizure of factories in 1945 resulted in the formation of Factory Councils, and again after the uprisings of 1956. After the political and economic crisis of 1981 workers self-management was conceded as part of the measures to give SOEs more autonomy. This remained on the statute book and was strengthened by the Employee Self government law of 1989. Under the terms of the self-management legislation, the general meeting of employees elects members of the workers council, and the director and all high- and medium level managerial staff are excluded from running from the council. The council has broad powers which include, among other things, drawing up the annual plan, auditing the annual balance sheet, making resolutions concerning investment, approving cooperation or partnership arrangements with other economic entities and approving the acquisition of fixed assets. Furthermore, the workers council, together with the minister responsible for the enterprise, has the power to appoint and dismiss the director, and the decision of the council are binding on the director (Dzwonczyk and Sobczyk, 1993).

CHAPTER FOUR

INSTITUTIONS AND THE TRANSFORMATION OF THE WROCLAW REGIONAL ECONOMY

CHAPTER FOUR

INSTITUTIONS AND THE TRANSFORMATION OF THE WROCLAW REGIONAL ECONOMY

4.1 INTRODUCTION

It has been argued that the emerging institutional and economic arrangements in a locality will be path contingent in exhibiting continuities with past legacies as well as actively shaped by current actors. An examination of the specificities of the Wroclaw regional economy in terms of both formal and informal institutions is central to an understanding of the potentiality and impact of foreign investment. Whether firms consider a locality in the first place, the outcome of entry negotiations and the economic and institutional linkages forged on arrival will depend, to varying degrees, on the institutional set up in the region. The degree of cohesion and cooperation of institutions beyond local government are what Amin and Thrift (1995b) refer to as institutional thickness, which could lead to lock-in behaviours that discourage the arrival and retention of foreign investment or contribute to the local industrial atmosphere in a way that is propitious for the arrival and retention of incoming firms. The purpose of this chapter is to use the radical institutionalist framework developed in the two previous chapters to analyse the relationship between the emerging institutions of the region and their relationship with foreign investment.

The chapter begins with a discussion of reconstructing local governance in the Wroclaw region, which includes an audit of the formal institutions of the locality in terms of political organisations and representation, development agencies and business organisations. Beyond, formal organisations importance is also given to the informal behaviours and continuities with the past that underpin these emerging structures and the networks that characterise them.

In line with an emphasis on both agency and the existence of differentiated interests elaborated in Chapter Two, the second part of the chapter focuses on path shapers, that is those agents of change who are forging the new institutional landscape. Radical institutionalists, rather than seeing a harmony of interests see economic processes as inherently conflictual, as the partial disappearance of centralised planning has allowed divergent interests to emerge. Continuation is represented by those groups who occupied positions of power under the old regime, while newly formed groups previously deprived of participation in the different institutional games, are endeavouring to gain recognition for their aspirations (Bafoil, 1999). In particular, the nomenklatura, trade unions and institutions from the US and western Europe are identified and discussed as the main path shapers in the Wroclaw regional economy.

4.2 RECONSTRUCTING LOCAL GOVERNANCE

This section begins by examining the way that after 1948 a process of Stalinisation took place in Poland as a whole, the result of which was that the local economy and society was controlled through a combination of local agents of the centre (the *voivodship*) and SOEs. The section then goes on to look at how legacies persisting from the pre -1990 period are shaping the emergent formal and informal institutions in the Wroclaw locality. It explores the extent to which and in what ways these embryonic structures of governance are able to build local institutions and create social capital that is able to attract, embed and retain foreign investment.

4.2.1 Rebuilding social capital

The period after the Second World War saw a dramatic shift in the social structure in Poland, with the decomposition of coherent local communities and historical regions as thousands of people were uprooted (Krzysztofek, 1992). In 1948 Wroclaw was repopulated with people from Lvov (ceded to Ukraine) and peasants driven by poverty from villages in central Poland. These two groups were joined by human flotsam and jetsom and the dispossessed, who were drawn by stories of work and food, to what Kennedy (1997) describes as the 'El Dorado' of the West.

From 1948 onwards two elements imposed order on this chaotic situation. First, the stalinisation of society imposed the *voivodship* as the local agent of national government, as regions were grouted into artificial administrative structures. The *voivodship* was housed in a purpose built, imposing and austere building, and was the transmission belt for the orders of Ministers or party officials. Thus high ranking party officials regarded the personnel of the *voivodship* as the official guardians of national interests in the region (Jensen and Plum, 1993). Between 1945 and 1990 town planning was basically an exercise in accounting and management, serving largely as a diagnostic tool for drawing up an inventory of the region. Although SOEs were largely under the authority of the relevant Ministry in Warsaw, interviews with former managers of these monoliths in Wroclaw suggested that there had been regular meetings of an elite coalition in the region comprising leading officials of the *voivodship* and managers of these companies. However, this had more to do with maintaining social networks and preserving the privileges of social capital than it had to do with resolving either practical issues or discussion regarding any vision for the local economy outside of fulfilling the plan.

Second, SOEs were a central way in which the communist authorities attempted to impose social control in the region. However, this was far from unproblematic and uncontested as these factories were sites of overt or covert conflict about wresting control from workers in an attempt to stamp stalinist work practices and ideology onto the workplace (Kennedy, op.cit). Importantly, at a local level welfare was linked to employment in the large SOEs that dominated the landscape of the Wroclaw region. They were significant contributors to welfare capital, and typically provision would include housing, health, vacation homes, nurseries, leisure, sports facilities and so on, although the access to these facilities varied between and within firms.

Within firms the *nomenklatura* acted as 'gatekeepers' (Domanski, 1997) in that they made decisions regarding access to and the allocation and distribution of these benefits. Apart from the direct benefits they awarded themselves, access to services such as loans, cars, trips abroad was used as patronage for loyal employees. Leisure and social provision was an important source of social cohesion, for example up until the mid 1960s Pafawag (producers of train carriages) had a huge range of activities including choirs, dramatic groups and a wide range of sports teams. Aspects of welfare and social activities that persisted into the 1990s included vacation homes, sports facilities, mushroom picking expeditions and fishing trips, which meant that there was a sense of community and interaction between workers.

The hegemonic role of SOEs was undermined by the post martial law reforms of 1981 which decentralised control and devolved functions giving these firms more autonomy. Although there was a great deal of variation between SOEs with regard to what and how much was divested social provision, particularly of housing, began to contract. However, by the late 1970s collective activity of a different sort manifested itself in the industrial action and political activity spearheaded by Solidarity. Wroclaw, along with other major Polish cities, was heavily involved in the fight for political change (Garton Ash, 1999), with factory occupations in Pafawag and Dolmel in the centre of the city and Polar, Wrozamet and Hydral in the industrial area to the Northeast. Tanks were used against workers and activists were arrested and often imprisoned, with fellow workers and neighbours taking collections to support their families. The collective memory of the industrial action of the late 1970s and early 1980s and the subsequent imposition of martial law is still very strong in the minds of older workers, but little more than ancient history for many people under forty.

Renewed crisis in the 1980s brought about a complete breakdown in social cohesion, and the rapid deterioration in the system and its increasing inability to deliver social, economic or political benefits meant that there was a marked deterioration in the quality of life. Although diminished by the end of the 1980s, the welfare capital of SOEs had to a certain extent been preserved. Social capital, however, was in a state of disarray and collapse, old networks were no longer delivering material or symbolic privileges for the *nomenklatura*. They were now in the process of searching for new rent seeking opportunities in the purported panacea of the free market and reconstituting old linkages to this end. Those with more foresight had already started to forge new relationships, particularly through foreign trade opportunities in anticipation of the collapse of the command economy. This was the institutional vacuum in which social capital had to be rebuilt or rather reconstituted in Wroclaw from 1990 onwards.

4.2.2 The emerging base of formal institutions

As we saw in the previous section local economies and regions in an administrative and political sense were weak and completely undeveloped in comparison with the West. Competencies and the scope of responsibility at a regional level had been constrained by legal acts, the manipulation of elections and limitation of funds. Zaucha (1999) describes the *voivodship's* budget as the spatially clustered budgets of individual government ministries. Further a whole range of intermediate agencies and NGOs such as chambers of commerce, agencies of regional development, consulting agencies and business support centres were completely non-existent.

In Poland a self governmental system on a local level was restored after the first fully democratic elections in 1990. According to a typology of countries (Gorzelak 1998) from the point of view of share of local budgets in all public spending and in GDP, Poland is a country of 'shallow decentralisation'. *Gminas* (communes), the lowest tier of local government, had responsibility for a range of tasks and receive money from the state and local taxes to finance their activities. However, Krzysztofek (1992) describes these organisations as lacking the hard instruments for affecting economic development. From 1990 onwards the second territorial unit, the *voivodship* became increasingly dependent on the central government or rather several departments of the governments, in that it has a set of sub budgets each of them under the control of a given Ministry. The *voivod* (governor of the *voivodship*) was nominated by the prime minister, and there was no elected political representation at the level of *voivodship.* The process of transferring responsibilities from central government was underway from 1990, but demanded the creation of bigger units, which is reflected in the reform of the territorial structure, which took place from January 1999.

On the following pages Figure 4.1 shows the major city and towns in the *voivodship.* Table 4.1 shows the relationship between the different tiers of government in the *voidvodship* and Table 4.2 shows the main non governmental agencies in the region.

Figure 4.1 Map of the Wroclaw *voivodship*

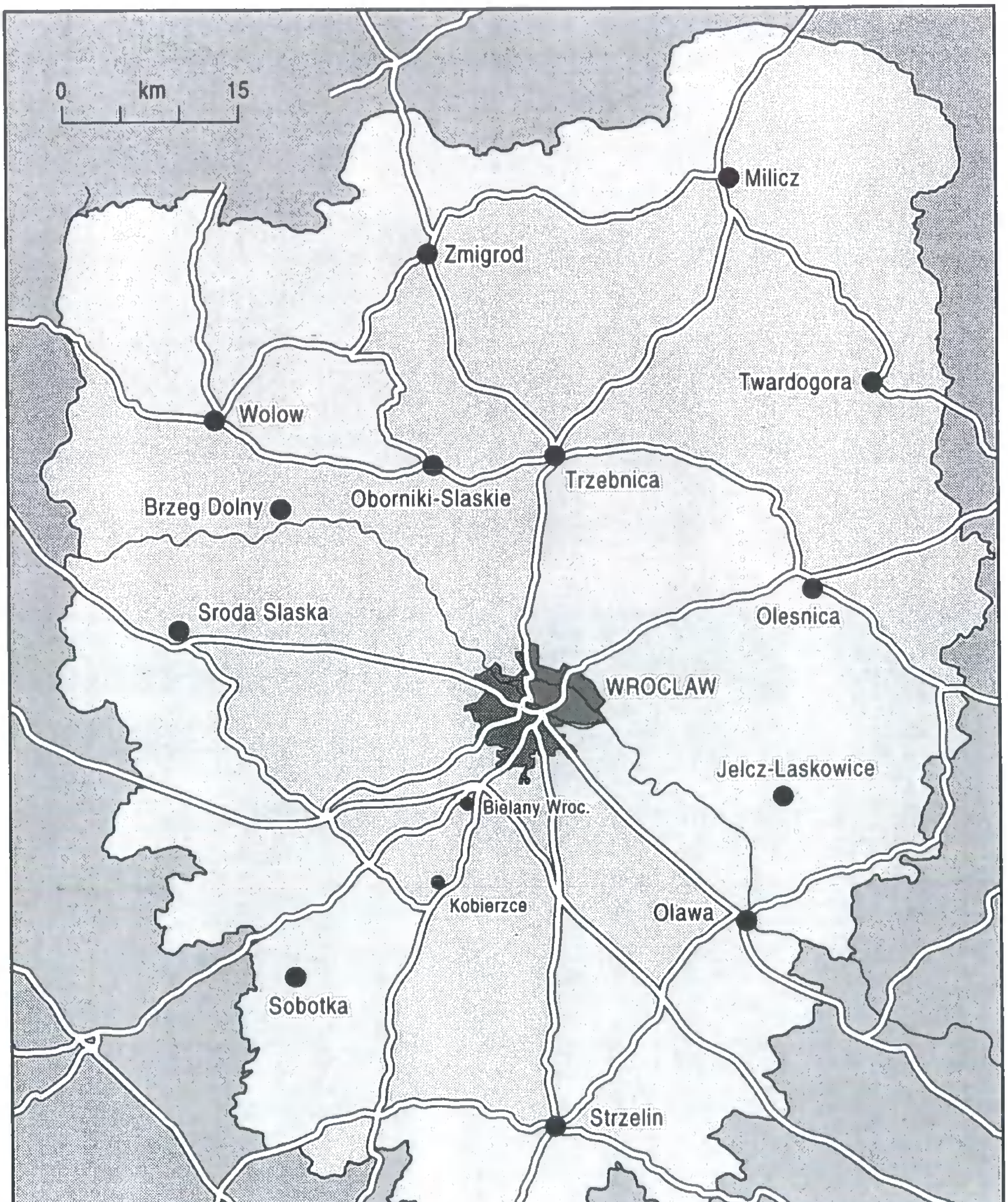


Table 4.1 Local government arrangements in Wroclaw 1975 to December 1998

Tier Local Government	Features	Development Functions
Voivodship (Region)	• Population 1.2 million • 1 of 49 in Poland • Performs functions of national government • Governor appointed at national level	Department of Economic Initiatives • Privatisation • Foreign investment
Municipality (City)	• Population 641,000 • 1 out 3 urban communes • Responsible for city	Department of Economic Initiatives • Year 2000 Plan • Foreign investment • Technology Park
Gmina (Commune)	• 37 in voivodship • 11 urban-rural, 23 rural • Limited functions	Initiative at level of local mayor

Source: Author

With regard to regional development the municipality had published an economic development plan that was accepted in March 1998 entitled Wroclaw 2000, which proposed a blueprint for the city's economic development. Outside of the institutions of local government the Wroclaw Development Agency was formed in December 1999 to promote economic development in the *voivodship* as a whole. In addition, since 1990 there has been a proliferation of other institutions such as the Lower Silesian and British Chambers of Commerce. Table 4.2 provides a summary and overview of the main institutions.

Table 4.2 Non-governmental agencies in Wroclaw in 1999

Agency	Functions
Wroclaw Development Agency	• Set up 1999 as private company • Owns assets (properties and land) • Economic development of voivodship • Supporting establishment of new companies • Place marketing • Attracting foreign investment • Build public and private networks
Lower Silesian Chamber of Commerce	• Set up 1989, currently 400 members • Funded by subscriptions(non profit making) • Members mainly from municipality • Most active members small business • Exchange of information • Networking for companies
British Chamber of Commerce	• Information for potential investors • List of contacts • Monthly meeting • Talks • Social events

Source: Author

4.2.3 Rebuilding local institutions

The problem of rebuilding 'localism' had its roots in the legacy of the past. Apart from the institutional vacuum in Wroclaw in 1990, the ability to rebuild a civil society with participation was undermined by the way in which social energy in the previous system had vented itself, not into running the system, but into rent seeking in the parallel informal economy. Hausner and Marody (2000) point to the importance of social capital based on mutual trust to achieve certain goals, and suggest that the social cement of trust has been undermined by the institutionalisation of non-accountability in Poland. In their view there has been an erosion of state authority as power shifts beyond the bounds of constitutional government, which in the economy relates to chaotic decision making with regard to satisfying the demands of powerful and discontented groups. Hausner and Miroch (ibid) quote a survey by Haman and

Wesolowski (1999) which found among ten features of democracy that 'participation in democracy' was given a relatively low eighth place, while 'choosing the best people to govern' to 'ensure the prosperity of citizenship was rated top'. It was suggested that this reflected a culture of exculpation and passivity regarding participation in democratic and community processes.

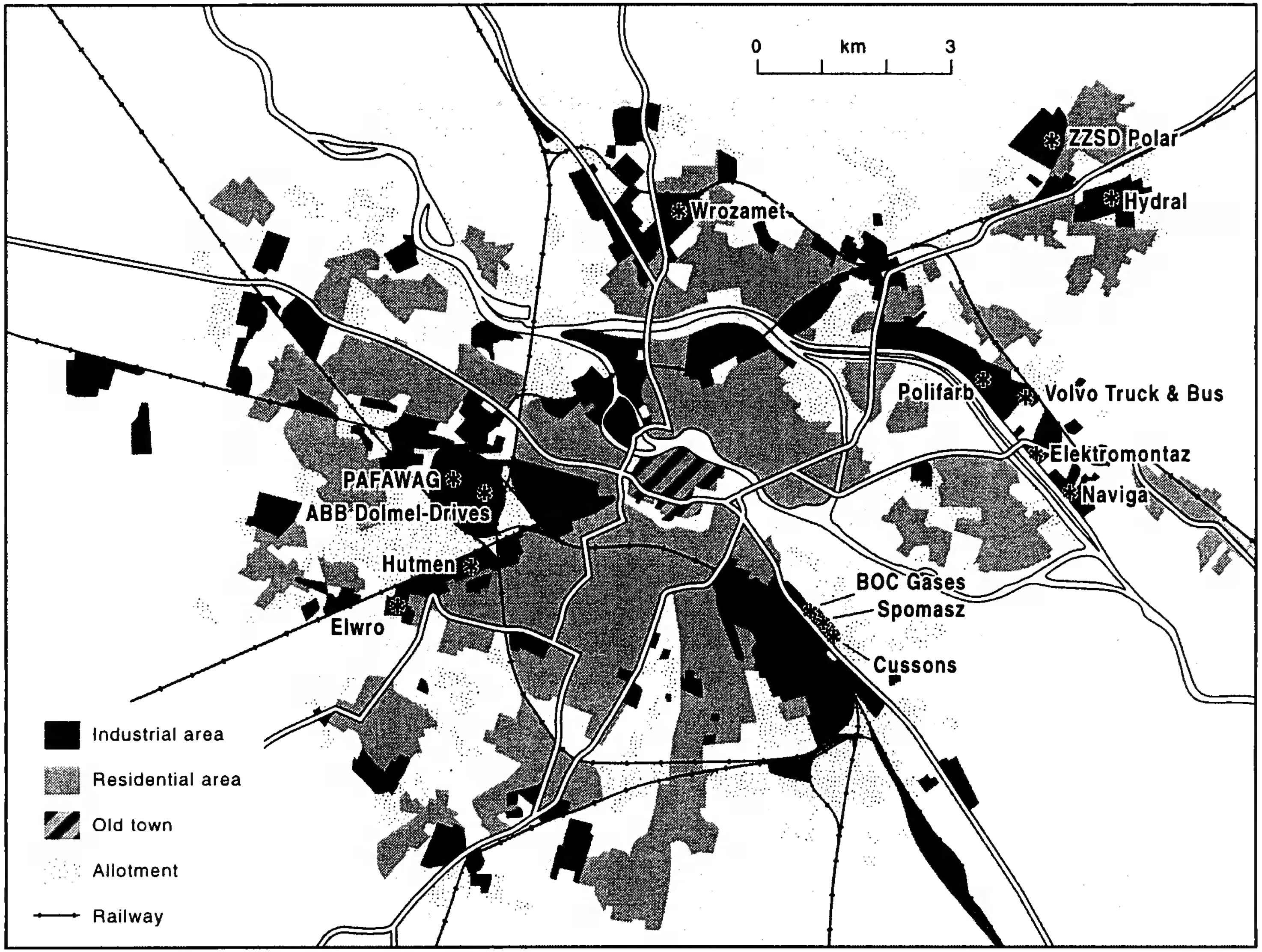
These issues are now explored in relation to FDI in the Wroclaw economy through three themes: the continued importance of SOEs in influencing transformation at a local level; conflict between those converting and reconstituting the social capital of the previous period into new power bases and the emergence of new interests; and how far networks have repressed or stimulated organisational innovation and initiatives.

The continued preeminence of State Owned Enterprises

The legacy of the past in terms of vertical lines of authority between the centre and the regions, overlaid with new piecemeal legislation from 1990 onwards, presented significant problems for formulating any coherent local strategy, particularly at the level of the municipality. Land use was chaotic (Figure 4.2 overleaf) with residential and industrial areas and *dzialka* (allotments) mixed together. The first problem was that control of the land was and continues to be a barrier to economic planning in the municipality. A large amount of land was allocated for industrial use, and SOEs continue to be significant landlords owning considerable areas of land in industrial areas to the West and the South East of the City over which the municipality lacks control. This had two implications for foreign investors first that there was little possibility for greenfield production within the municipality and second they had to negotiate directly with the local or national representatives of SOEs.

By 1998 three foreign supermarkets had been sold land by SOEs without consulting the municipality and the Director of Economic Initiatives of the municipality suggested had created tensions.

Figure 4.2 Map of Wroclaw municipality showing land use



Frustration on the part of the planners emanated from the fact that the Wroclaw 2000 municipal development plan had included provision for a network of supermarkets, but it was argued that the current retail projects exceeded the number anticipated and had not been located in the areas deemed to be best for the city. Thus the number and pattern of supermarkets was viewed as incompatible with the city's development plan, and there were no laws with which to regulate the situation because of the confusing situation with land ownership. One supermarket, had written a Letter of Intent, but had already reneged on parts of the agreement. There was particular concern for the impact that the presence of large supermarkets would have on smaller local shops and the fact that this may leave some parts of the city dead. The possibility of planning and the formulation of a regional strategy was undermined by a lack of control over key firms in the region or municipality.

Large SOEs dominated the economic landscape at the beginning of the transformation period, several of which continued to be significant employers. The legacy of the past was one where the central relationship was between large SOEs and central government with personnel in local economies often unaware of and not consulted about decisions taken. Municipal governments made plans without the cooperation of large SOEs in their localities and in turn these SOEs usually ignored those local plans. The current privatisation process reflects these past relationships, and strong tendencies still exist towards vertical rather than horizontal linkages with different agendas being pursued by national and local institutions. For example, the regional Ministries of Privatisation based in the *voivodship* are an extension of national government and decisions are likely to reflect national priorities and concerns rather than specific local circumstances. Therefore important decisions about large local SOEs were taken at national level without reference to local actors.

Brownfield foreign investments as part of the privatisation programme were all negotiated at national level, with local actors playing a role only at workplace level. Firms such as Rokita and Wrozamet are both part of National Investment Funds (Mass Privatisation Programme), holding companies with both a national and international element based in Warsaw but with significant ownership lying outside of Poland [1]. In the restructuring and sale of Polgas (state monopoly industrial gas company) or Dolmel there was no regional logic or coherence to the bundles of firms assembled for the purchase of foreign investors and no mechanism to ensure that local interests would have any sway or influence. Thus decisions regarding the expansion, closure or rationalization of a large number of firms such as Polar (5,000 employees) or Jelcz (3,000 employees) lay in Warsaw rather than the locality or region. A palpable bitterness and frustration was evident from the outcome of a national decision to sell a local computer firm to Siemens. Siemens had been forced to buy the Wroclaw company as part of a national package to gain entry into the telecommunications market. Part of the agreement was that all 1,500 employees would be maintained, however, the redundancy package was so attractive that jobs were voluntarily 'relinquished'.

Competing interests: emerging elites versus the old guard

An important element of institutional thickness (Amin and Thrift 1995a) is consensus, trust and a congruity of objectives (Hausner and Marody, op.cit.). This could emerge in one of two ways. The logic of the systemic vacuum argument (Jessop, 1995a) is that an institutional configuration needs to be constructed with regional development agencies as a principal agent (Hausner *et al*, 1997). In the evolutionary analysis with path dependency at its core, institutions will emerge slowly recombining elements of the past and present in a new constellation which will be both fit for purpose and therefore efficient (Grabher and Stark, 1997). In the case of Wroclaw, the lack of coordination and cooperation between various levels of administration and government is the outcome of legacies from the past reflected in current processes of the privatisation of land and firms, but also reflected deeper conflicts.

Different organisations had evolved to represent different factions of capital. The Lower Silesian Chamber of Commerce was set up in 1989 as a non-profit making voluntary organisation. It employed four people and had 400 members in 1999, 85 per cent of whom are based in the municipality. Despite the nominal membership of large firms such as Enginco, the organisation mainly represents the interests and concerns of SMEs. For example, twenty five per cent of member firms were tourist or holiday firms who cooperated on issues such as standards of service and marketing. Another significant group were the small firms who own bars, restaurants and cultural institutions such as galleries in the old town, who had collectively made representations to the muncipality on issues such as leases. Thus the activities of the Chamber of Commerce reflected the membership and concerns of SMEs.

In the early 1990s there has been an initiative by the governor of the *voivodship* to form the Psie Pole Industrial Group to represent and develop the interests of white goods manufacturers, comprising Polar, Wrozamet, Hydral and Dolmel. It was envisaged that they would cooperate together for mutual support and development, with shared technology and research, suppliers and marketing. Financial backing would be forthcoming from the powerful local Bank Zachnodnia. However, the individual interests of managers and workers in the firms outweighed the potential benefits of the collective. Even on the most basic level Hydral failed to have a contract renewed for supplying components to Polar, because they could not meet delivery times and quality standards.

Foreign capital in the area tended to coalesce around the British Chamber of Commerce. In addition to British firms, US and Swedish firms were also included in the list of members. The chamber facilitated important informal contacts between foreign investors, who used it as a forum for the exchange of information on wage levels, work practices and infrastructural problems. It was also the starting point for incoming FDI in terms of establishing contacts with existing firms. The municipality was unable to get any large foreign investors interested in contributing to the Wroclaw 2000 plan, because as the Vice President suggested, " They are too busy playing their own games". The abortive Psie Pole Industrial Group, the Lower Silesian Chamber of Commerce and the British Chamber represent the interests of different sections of capital in terms of both size and nationality. These are manifest in these three organisations exhibiting different and possibly divergent interests and largely operating within different ambits.

Overt conflict and ill concealed hostility, however, were evident between the municipal council and the *voivodship,* and particularly its ex-governor. While the *voivodship* had responsibility for the wider region, the concern of the municipality lay in the development of the city. The ex-Governor suggested that the city was over dominant and too strong in local decision making processes, while city representatives argued that the *voivodship* favoured the smaller towns and *gmina* to the detriment of the municipality. There was little communication between these two institutions regarding foreign investment - they produced different promotional literature, attended different international fairs and conferences, and courted individual firms separately in line with their divergent agendas. The outcome was that that these two levels of regional government have pursued parallel, if not competitive, strategies to attract foreign direct investment.

The hostility towards the ex-governor went beyond a simple clash of personalities. As governor of the *voivodship* for eight years, and the appointee of the national government, he occupied an extremely powerful position in the region. He had been in post from 1990 to 1998 during which time he had survived five changes of national government. A view voiced not only by the municipality and the Lower Silesian Chamber of Commerce but also other local agents, suggested that the ex-governor dominated and was at the apex of a powerful network which had survived from the pre-transformation period which comprised people from the *voivodship* and some of the large local SOEs. The view was widespread that the activities of this network were focused on rent seeking rather economic development. From an institutionalist agenda these deeply rooted relationships and networks are critically important, but by the nature of their informality are exclusive, have low visibility and are not easy to verify. As we shall see the ex-governor moved his power base from the *voivodship* to the newly created Wroclaw Development Agency.

There was also conflict between the municipality and the smaller towns and *gminas*, particularly in trying to win foreign investment. Although Wroclaw city had relatively low rates of unemployment, there were marked disparities within the region, particularly between the city municipality, small town municipalities and rural *gminas*. There was also a wide variation in terms of the initiative and dynamism exhibited by actors at the sub regional level. There were examples of proactive local mayors doing direct deals with firms. Bielany, a *gmina* just outside of the city, succeeded in securing a two large greenfield investment in 1993, Cadbury and Cargill. On the same site there is now a huge out of town retail complex with IKEA, Makro and Tesco. To a lesser degree Sroda Slaska had been successful in capturing foreign investment, with the Coca Cola bottling plant at one end of the town and Armstrong (foam manufacture)r at the other.

The creation of Special Economic Zones (SEZ) at national level in 1995 gave preferential tax treatment to foreign investors and added to the complexity of regional governance and intensified inter regional competition. Without any SEZs within its territory there were fears that Wroclaw would become relatively unattractive in comparison to those regions that could offer substantial financial inducements such as tax holidays. Two firms which had intially showed a strong interest in the Wroclaw region, decided to locate in SEZs. Consequently Motorola located near Krakow and General Motors in the Katowice area. More problematic is the fact that two adjacent *voivodships* of Walbrzych and Legnica had been designated SEZs and this may have deflected potential investments from Wroclaw. Volkswagen, for example, have built a greenfield site to build engines for its global operations in Legnica. The consultant Arthur Andersen identified the potential financial benefits of these adjacent SEZs to client firms looking to locate or relocate, and reported that at least one firm had consolidated seven smaller investments from Wroclaw on one larger site in the Walbrzych *voivodship.*

Bypassing old networks: from inertia versus innovation

Amin (1999) has emphasized the need for recursive learning by local agents, where they actively seek new solutions to problems rather than following the reactive, hierarchical rule following behaviour that characterised the previous regime. The municipality showed the greatest degree of forward and proactive planning, although they experienced passivity with regard to participation from individuals and groups in the community. A number of conferences and meetings were held out of which large numbers of books and documents were produced, but this did not attract 'new blood' rather the same group of academics and local bureaucrats who were obliged to participate. The plan itself resembled advanced spatial planning and was mainly concerned with land use and was reminiscent of old five year plans. Further, as the plan was being formulated local actors were overtaken by events with the arrival of supermarkets into what were regarded as undesignated areas. A positive initiative by the municipality was the establishment of a technology park which had the legal status of a joint stock company belonging to the State Treasury. In 1999 the park was still at the initial stages of development, because there was difficulty in purchasing the 4,000 square metres of land for which plans had been drawn up, from the Ministry of Agriculture.

In comparison with the municipality the *voivodship* showed a much greater degree of inertia. The Department of Economic Initiatives set up in 1 July 1990 was nominally responsible for economic development in the *voivodship.* This department was also the regional representative of the Ministry of Privatisation, and therefore economic development was mainly viewed as being synonymous with promoting privatisation. Thus there was no strategy or vision for economic development because the main activity was divesting property and selling off large numbers of small and medium sized companies. In this case the enabling myth of the plan had been exchanged for the enabling myth of the market with a complete absence of understanding or discussion as to how newly created SMEs might be supported by the *voivodship* or how entrepreneurial expertise harnessed in wider networks. There was no notion of creating a supportive environment in which these firms might develop – private property was seen as the only necessary condition for successful entrepreneurship.

The task of attracting and liaising with foreign investors lay within the ambit of the Department of Economic Initiatives and was the responsibility of one low level bureaucrat, who between 1990 and 1998 was directly involved in the arrival of only one foreign firm – Cargill. His other tasks included identifying potential sites for foreign investors that were available for purchase, writing promotional literature for the *voivodship* and producing a catalogue of land and assets for sale. In the event of any interest being shown by flagship firms, the Governor of the *voivodship* would intervene and directly carry out negotiations, with the bureaucrat nominally in charge relegated to the sidelines. In fact it appeared that the purpose of the nominal appointment of a low level bureaucrat was to leave the governor's role in intervening and negotiating with foreign firms unchallenged.

The Governor of the *voivodship* (1992 to 1998) suggested that the *voivodship* was simply incapable of promoting economic development. At *voivodship* level he argued it was not clear who needed to be approached to get things done and a potential foreign investor faced a muddled and complicated system where different departments needed to be contacted, regarding land purchase, use of utilities and labour issues and saw the current rules, regulations and structures as inflexible and a barrier to promoting change and development. Following his analysis regarding the shortcomings of the *voivodship* the Governor set up the Wroclaw Development Agency in December, 1997. WARR (Wroclawia Agencja Rozowoju Regionalego) was a non-governmental institution, which has the legal status of a commercial company and therefore had to cover its costs and work on a zero plus basis. Its financial situation is stable as it has a stream of income from managing the land and property which it owns. The shareholders are the municipalities, the Chamber of Commerce and regional enterprises. WARR is managed by a one person board, who was the previous Governor of the Wroclaw *voivodship* (1992 to 1998).

The aim of the organisation was to build networks at different levels. In the region it was intended to cooperate with other development agencies, chambers and business associations, banks and consulting companies through a series of partnerships which have been formalised by signed declarations. In addition, local networks were not only mobilised as customers and clients for its activities, but also as a source of additional expertise for consultancy. As the Director of the WARR and before in his role as governor there had been attempts to build international level partnerships which had been established with regions in France and Germany (although it was felt that Eire, Portugal or Spain are closer to the Polish experience) and trade visits have taken place to a variety of countries.

In 2000 it was too early to judge the success of WARR as it has only been in existence for two years. The ex-governor/current Director had set it up with the ambition of it becoming the leading force for local economic development in the region. Its aspirations and status are reflected in the new offices in a palatial building in the *rynek* (town square) which was completely refurbished early 1999. The Director used his previous post as governor to create assets for WARR, through the ownership of buildings and property, necessary to sustain the agency financially. It was suggested that past networks would be used to gain work and contracts and also to subcontract the work. The Director was politically astute and well connected in both Warsaw and the locality as a result of eight years as governor. The emphasis placed on breaking with old habits and an openness to new ways of doing things, coupled with extensive networks at a local, national and international level offer the possibility of a proactive local development organisation.

The potential contribution of WARR to local development and 'intelligent' institution building has to be offset against other factors. First, the extent to which the agency will be able to deliver the quality of services across the ambitious range of activities listed, all of which face competition from other local private and public institutions. Second, how far the current strategy extends beyond winning FDI and place marketing, with no strategy for SMEs which are regarded in some quarters as the backbone of development from below. Third, because the agency does not have a public budget it must make a profit, and this may constrain its ability to incorporate wider social objectives. Finally, the most significant factor that inhibits WARR's ability to play a developmental role in the region, is the way in which the current organisation is perceived by other local actors as a continuation of rent seeking activity by a small network of unelected people. As a consequence relationships with other institutions in the locality, particularly the municipality, were poor and a barrier to a coherent strategy.

4.3 PATH SHAPERS IN THE LOCALITY

This section identifies and elaborates a discussion reagarding those groups who have been significant agents of change. First, an examination the role of the *nomenklatura* accords with the view that powerful social groups have led to chaotic decision making. The second group of agents of change focuses on the importance of organised workers, and in particular Solidarity. This trade union cum political party was central in dismantling of the old communist system and shifting the trajectory towards a more market based economy. At a local level Solidarity has played an important role in either cooperating with or contesting change, particularly at the level of the workplace. The final section examines the role of agents from western market economies and the part they have played in influencing formal institutions and shifting informal institutions.

4.3.1 Social capital into economic capital: the *nomenklatura*

The main impact of the chaos of the 1980s was that the ruling class and party leaders started to turn their social capital into economic capital. By the end of the 1980s, many managers followed the call of the leadership and engaged in private enterprise, and party and state officials used their position to become wealthy owners of what used to be state enterprises (Kolankiewicz and Lewis, 1988). Typically, what happened in so-called *nomenklatura* privatisation was that an SOE would sell its non-core operations, such as a computer centre, repair facilities, or the sales centre to a group of insiders that included managers and party activists. Purchasers were offered favourable terms in the price, leases or licenses, thus stripping state owned enterprises (SOEs) of their most profitable operations (Kierzkowski *et al,* 1993). As enterprises were restricted from raising prices, the private purchaser could buy cheaply and make a profit by selling on the unrestricted black market. These *nomenklatura* privatisations further weakened the management of the SOEs. Decentralisation allowed them the option of shifting their power base, either by acting as owners of small businesses or as a result of *nomenklatura* privatisations, or more commonly as increasingly powerful managers in quasi governmental, decentralised enterprises.

As we saw earlier since 1990 that group of people who constitute the *nomenklatura* at a local level, have actively transformed and reconstituted their social capital to transform themselves from the agents and beneficiaries of the command economy to the new entrepreneurs. The remnants of the nomenklatura do not form a homogenous group and are much more fluid than before 1990, and as we shall see have deeply differentiated interests regarding foreign capital and firms. In these recombinant emerging institutional forms it is envisaged, and indeed viewed as desirable by some, that the new elite of entrepreneurs will substantially overlap with the old nomenklatura (Grabher and Stark, 1997). Strong connections are seen between managerial and technocratic positions in the state socialist sector and success in entering entrepreneurship in post communism. The legacy of the previous period is that the former elite were well endowed to convert their cultural capital of education and training acquired in the old order to prominent positions in the new. This has been reflected in the way that managers of previous SOEs have bypassed local government in their disposal of assets, in particular selling land to foreign food retailers. Further there is strong continuity in those that managed the old firms and the new management in FDI owned firms, particularly in brownfield developments. Powerful actors in the *voivodship* have been able to use their position and networks to convert the physical and cultural capital of the old system to assets under the new market economy, from which they are direct beneficiaries. Interviews with a selection of worker-management buyouts in Wroclaw confirmed the findings of Tittenbrun, (1995) that this process has enabled previous managers or people in important positions to transform themselves into the entrepreneurs, managers and new owners of small and medium sized companies.

4.3.2 Blockade capital into social capital: workers

Following the radical institutionalist approach rather than seeing firms as consensual and coherent, workplaces are regarded as sites of (potential) conflict (Clarke *et al*, 1993; Thirkell *et al*, 1994 and 1995; Herod, 1998). It follows that this analysis brings the role of labour both organised and unorganised into focus as a significant agent of change, as cooperators with, initiators, or contestors of transformation, with regard to the privatisation process and the restructuring of firms in particular. At a national level, government strategy was either tempered by the threat of potential industrial unrest, or supported by trade unions playing a critical role in mobilising consent for economic reform.

At enterprise level, attempts to reform structures of property ownership and the relations of production were constrained and conditioned by the traditional approaches of managers and workers developed over the long period of the command economy. The strength and persistence of these enterprise patterns and habits varies from country to country, according to recent past policies of economic reform and the specific features of the regime. The need to restructure the labour process and to introduce capitalist patterns of labour control have been a necessary corollary to the attempt to transform the economy into a large privately owned market system. The difficulty in doing this is what makes labour relations a key issue for regime change. (Thirkell, *et al,* 1994 :1)

The notion of workers self management is strongly rooted in the Polish radical trade union tradition (Biezenski, 1994). The spontaneous seizure of the factories by militants in 1945 resulted in the formation of factory councils (Kennedy, 1997), and in 1956 (Harman, 1988) and in 1970 workers turned to self-management in the form of Workers Councils or commissions. Pankow (1993) argues that Polish SOEs in the post war period were scenes of permanent social conflict, sometimes hidden sometimes overt. Workers tried, with varying degrees of consistency and success to build workers' representation in factories which communist employers tried to counter.

After the political and economic crisis of 1981 workers self-management was conceded as part of the measures giving SOEs more autonomy. This remained on the statute book and was strengthened by the Employee Self Government Law of 1989. Under the terms of the self-management legislation, the general meeting of employees elected members of the Workers Council, and the director and all high- and medium level managerial staff were excluded from running from the council. The council had broad powers which included, among other things, drawing up the annual plan, auditing the annual balance sheet, making resolutions concerning investment, approving cooperation or partnership arrangements with other economic entities and approving the acquisition of fixed assets.

Workers self government had implications for the role of the director, the connecting thread between the centre and the enterprise. Since 1946 this position had been highly ambiguous in terms of responsibilities, prerogatives, lines of subordination and accountability. From 1958 until 1990 the director functioned in harness with the Conference of Workers Self Management (KSR), the party secretary and the union chairman. During this whole period appointments were subject to *nomenklatura* procedures and the usual personal ties typical of cadre policy in communist countries. Furthermore, the Workers Council, together with the minister responsible for the enterprise, has the power to appoint and dismiss the director, and the decisions of the council were binding on the director (Dzwonczyk and Sobczyk, 1993).

In 1990 Solidarity was a powerful political force which mobilised large numbers of workers to bring about the demise of the Communist government, and which then as a political party ushered in the period of market led transformation (Rainnie and Hardy, 1995). It was a Janus like organisation described by Lewis (1994) in 1990 as being a political giant but a trade union pygmy. Solidarity, instead of constituting, 'blockade capital' were turned into 'social capital' to facilitate reforms involving massive restrictions on consumption and far reaching structural change'(Deppe and Tatur, 1997: 246). At the level of the Wroclaw regional economy Solidarity's enthusiasm for the market, in theory at least, manifested itself in courses organised by Solidarity on market economics and attended by one hundred of its members, which was financed by the University of New Britain, United States. In practice the role of Solidarity has been more complicated and at times contradictory, both competing with or contesting the pace, scale and form of restructuring. However, as we shall see although Solidarity embraced the notion of the market with a degree of enthusiasm, there was a gap between the enabling myth and the realities they experienced in their workplaces. This gave rise to instances of conflict as the role foreign direct investment in the ownership structure or its impact on the firm were strongly contested.

Apart from the key role they played in a number of flagship SOEs, in the locality Solidarity has played a defensive role with little involvement in any vision of economic development. It has mostly been concerned with trying to mitigate the effects of the impact of rapid transformation on the most vulnerable sections of the community. In the *voivodship* there was one main office in Wroclaw municipality and ten smaller offices in other towns. Within the *voivodship* Solidarity dealt with diverse problems and the differential effects of transformation as some sub-regions faced very high levels of unemployment. Health and education reforms instigated in January 1999 produced huge problems for Solidarity. Eight hospital closures by March 2000 and more planned, had resulted in large scale redundancies. Solidarity played an important social work function and individual case work formed a large proportion of its work, involving legal advice regarding work, family and personal problems, and writing letters to courts and governments. The shedding of jobs in its traditional base of SOEs and a failure to recruit and establish a presence in the new foreign investments, particularly, the retail sector, has left Solidarity operating on the margins.

4.3.3 Imported intellectual capital: western market economies

Governments, firms and NGOs from Western market economies have been important agents of change in attempting to institute a new set of informal institutions at both a national and a local level. In the communist period the locality had accumulated knowledge comprising embedded habits, routines and legacies, which western economists and business practitioners have generally considered to be unsuitable legacies and a barrier to economic development. According to Pejovich (1994) this philosophical heritage was based on communalism, political hierarchy, shared values and shared traditions. These collective norms and values were not viewed as conducive to methodological individualism and rewards based on performance. Notions of collectivism were reflected in a deeply entrenched belief in the communal provision of a variety of benefits such as low cost vacations, allowances for children, medical benefits, subsidised housing and leisure.

The market economies of the West have been proactive in transferring what was thought to be 'appropriate knowledge' relating to the functioning of market economies. Managerial know how has been transferred through FDI, which arises through the extensive training given to senior and middle managers, coupled with the transfer of management systems from the home country. Chapters Five and Six discuss how managers of foreign investments consciously attempted to displace 'old attitudes' to work and replace them with those which were in line with US and West European work practices.

After the establishment of a critical mass of foreign capital there was a growth in the number and activities of organisations, both formal and informal, to fulfill a networking function and to lobby in the interests of foreign capital. The corporate strategy of Volvo of having expatriates in post for a longer period than other firms, led the Managing Director to lobby for an international school in order to recruit and maintain younger executives with families in post. The international school opened in Wroclaw in September 1998 and the Managing Director of Volvo was appointed to the supervisory board. In addition, by 1999 there were British, German and Swedish consuls. Further the Swedish consul appointed in 1998 is the Polish HRM Director at Volvo. Representatives of foreign capital have lobbied for infrastructural improvements and facilities such as international banks and direct flights from a larger number of European destinations. All of these developments have served to lock the region further into international circuits of capital and increase their attractiveness from the point of view of potential investors.

Creating the appropriate institutional conditions has been at the heart of assistance and aid from western market economies. Knowledge has also been transferred through aid to transforming economies predicated on the idea that change will be facilitated and accelerated through an understanding of the 'right' ideas or the existence of best practice (often unadapted), strictly codified, bundled and transferred. The New Britain University, from America gave a special grant to the Technical University of Wroclaw, one element of which was to organise courses for trade unionists on economics. The syllabus, based on a neoliberal text, was designed to help workers understand the 'new situation' and the meaning of a market economy and the current problems faced by enterprises. Over one hundred trade unionists, mainly from Solidarity, attended these courses. Further Trade Union leaders from Jelcz and Polar were provided with all expenses paid trips to the US, which lasted several weeks on the invitation of American trade unions. These were nothing less than very overt attempts to transfer, unmodified, a set of enabling myths about the free market whose economic benefits were beyond question. There were more subtle attempts at introducing new ways of thinking from West European economies that fell short of the all embracing ideological packages exported from the US. For example, Ostwestcentrum was a non-governmental organisation financed by local government from Bayern, Germany with the aim of transferring knowledge and imparting business practices. The organisation worked with the Lower Silesian of Commerce to provide support for local SMEs through organising short courses on making business plans and business games.

Otrek was a Polish consultancy which was supported as part of the UK Know How initiative [2], and this aid took the form of buying in assistance from UK's leading supplier of training. Initially these UK consultants advised the company on how to transform itself from a cooperative with many stakeholders to a two-person limited liability company. Simultaneously they transferred packages for training in a wide variety of management skills in HRM, finance and marketing, which were transferred with varying degrees of customisation for the local market. Between 1996 and 1998 a number of consultants from the UK had delivered courses, on the basis of disseminating what was understood to be 'best management practises' to Polish trainers and managers.

Advice from the West also extended to the reorganisation of social provision along the lines of the market. At the beginning of 1999 reforms, based on the advice of the World Bank, were introduced in both health and education. In the case of health the budget was reduced and devolved to the regional bodies. The method of restructuring the chaotic health service has been for money to follow patients, and let decisions about the future of hospitals and clinics be taken by the market through some sort of '(un)creative destruction' mechanism. The Otrek consultancy won several contracts for advising hospital managements and training health managers in the art of accountancy and budgeting. The result has been the closure of eight hospitals in the *voivodship* by the end of 1999 with over a thousand health workers having been made redundant. Therefore new ideas and discourses have been active not only in restructuring firms but also welfare capital.

Thus there was extensive investment in the necessary ideological apparatus at a local level to displace old attitudes, mindsets and routines and replace them with those more adapted to the needs of market economies and underpinned by unquestionable assumptions regarding the desirability and efficacy of market led transformation.

4.5 CONCLUSION

By the end of 1999 the formal institutions of governance in Wroclaw were embryonic and fractured. While there was a shared enthusiasm for the arrival of foreign investment, no coherent strategy was evident. Rather institutions at different spatial levels such as the *voivodship*, the municipality and sub-regions were pursuing their own agendas regarding both attracting inward investment and wider issues of development. Alongside the newly emerging interests of indigenous SMEs and foreign TNCs, powerful local networks carried over from the previous regime continued to exert influence in the regions through SOEs and the *voivodship.*

From 1990 onwards the reduced importance of SOEs had a profound effect on local governance that extended beyond the economic effects of job reduction or reduced social provision. These institutions were important and powerful actors under the previous regime, and their decline has had a marked effect both in terms of power relations and represents a shift in collective understanding. Regions such as Katowice with a concentration of steel and coal have powerful vested interests, and both workers and managers having greatly affected the pace and form of change to the extent that Gorzelak (1998) suggests that they have blocked restructuring processes. The industrial legacies of the Wroclaw region have produced a different configuration of interests. The relatively diverse economic base has meant fewer obstacles to restructuring, particularly as foreign investment has absorbed some of the local managerial elite into the transnational capitalist class. Previous managers of SOEs were often appointed to well paid, but often nominal roles in the new enterprises which fractured old networks.

At the level of the workplace Solidarity accepted the rhetoric of the market but not its material consequences in terms of employment reduction, changing habits of work and different systems of organisational governance.

In the context of weak and underdeveloped structures of local governance, Western institutions in the form of governments (national, local, and supranational) and TNCs have been able to have a significant impact on institution building. Foreign investors have created their own institutions including Chambers of Commerce, international schools and consuls. Aid programmes from the US or Western Europe have been deliberately focused on shifting collective understandings in the locality, ranging from advice on reconstructing governance to crude attempts to instill an understanding of the market. However, in order to understand the economic and institutional impacts of foreign investment it is necessary to now focus on incoming firms as agents of change by opening the 'black box' to examine influences on the embedded of organisations as they cross national boundaries and operate in different institutional set ups. The next chapter uses the taxonomy developed in Chapter Three to analyse the qualitative and quantitative linkages of incoming firms in the Wroclaw regional economy.

ENDNOTES

1 National Investment Funds (NIFs) were holding companies which owned a bundle of about twenty eight firms to restructure as a result of the Mass Privatisation Programme. The NIFs were leased to consortia of Polish and foreign banks, financial institutions and consultants. The balance between domestic and foreign partners was to inject know-how and finance into the restructuring process at the same time as allaying fears about high levels of ownership by non Polish companies.

2 The UK Know-How Fund was aid given specifically to Poland aimed at transferring business skills, retraining redundant workers or supporting regional labour market planning. In many cases UK consultants were the financial beneficiaries of such initiatives.

CHAPTER FIVE

STRUCTURAL AND INSTITUTIONAL INFLUENCES ON THE EMBEDDEDNESS OF FOREIGN INVESTMENT IN WROCLAW

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5.1 INTRODUCTION

Chapter Three reviewed claims that recent trends in corporate dynamics and restructuring have led to qualitatively superior forms of manufacturing investment by TNCs that may benefit local economic development in Less Developed Regions (LDRs). Further, it has been argued in some quarters that firms are increasingly gaining competitive advantage from participating in localised networks from which they derive tacit knowledge. The main question is not whether incoming foreign investment is embedded, because all behaviour is rooted in a range of social, institutional and economic relationships. The issue is how and in what ways incoming firms are entangled in webs of social and economic relationships, and the quantitative and qualitative dimensions of these linkages.

The taxonomy presented in Chapter Three suggests that in order to give a more nuanced account of the complex impacts of foreign investment in a locality, influences on embeddedness need to be grouped into four broad categories; structural, cultural, cognitive and institutional. The particular focus of this chapter is to examine the structural and institutional embeddedness of foreign investment in the Wroclaw regional economy, by drawing on interviews in thirteen flagship foreign investments.

The structure of the chapter is as follows: The first section begins by presenting some stylised facts regarding foreign investment in the region and then looks at the economic context of incoming firms in terms of past industrial legacies and current restructuring processes in the Wroclaw economy. The second section examines structural factors influencing local linkages such as the nature of competition in sectors in which the case study firms are based, and the extent to which this influences the quality of linkages in the locality. The third section on institutional influences of embeddedness examines the relationship between incoming firms, formal institutions and agents of change at different spatial levels. Further, the importance of shifting informal understanding in the workplace is discussed. The last part of the chapter focuses on the case study of Polar, Poland's largest white goods producer. This allows a detailed and in-depth examination of the transformation of an State Owned Enterprise (SOE), where changing structural influences on the embeddedness of the firm, particularly related to changes in competition, has made foreign investment a necessity. However, deeply rooted collective understandings in the workplace articulated through the Solidarity trade union have made restructuring a complex and contested process.

5.2 BACKGROUND TO FOREIGN INVESTMENT IN WROCLAW

5.2.1 Foreign direct investment in the context of national and international trends

In the context of the transforming economies of CEE Table 5.1 shows that Poland is now the lead country in terms of both absolute flows and inflows and as a percentage of the total in the region:

Table 5.1 Foreign direct investment in selected countries in Central and Eastern Europe, 2000

Country	FDI inward stock (USD billions)	Breakdown by country (percentage of regional total)
Poland	36.475	39
Hungary	19.863	8
Czech Republic	21.095	18
Russia	19.245	11

Adapted from World Investment Report 2001, UNCTAD

The following two tables need to be treated with some caution as the measurement of foreign investment inflows and their distribution have some shortcomings[1]. Table 5.2

gives the absolute and percentage share of foreign investment in Poland of the top nine *voidvodships*. A highly uneven picture of the distribution of foreign investment emerges. Warsaw has the lion's share of foreign investment with 44.5 per cent of the total, although this figure will have been inflated by substantial flows of capital into the financial sector. According to these figures Wroclaw is in sixth position with a 3.5 per. cent share of total investment. *Voivodships* in the West of Poland, Warsaw and Krakow then account for 72.6 per cent of total investment with the remaining 27.4 per cent shared between the remaining 33 voivodships. Regions in the East of Poland have been the recipients of very small amounts of foreign investment.

Table 5.2 Foreign investment: top nine Polish *voivodships*, 1997

Voivodship	Foreign investment (millions of Polish zloty)	Percentage share of foreign investment in Poland
Warsaw	9, 653.0	44.5
Krakow	1419.0	6.8
Poznan	1281.7	5.9
Katowice	1128.2	5.2
Bielska	773.1	3.6
Wroclaw	750.2	3.5
Lodz	732.8	3.4
Opole	376.6	1.7
Radom	366.0	1.7

Source: Adapted from Urzad Statystyczny we Wroclawiu (Wroclaw Statistical Office), 1998.

Table 5.3 shows a broadly similar pattern. The figures relate to the distribution of the number of foreign investments by region, according to the new administrative structure from January 1999, which reduced the number of *voivodships* from 42 to 16. Within Poland, Dolnoslaskie with Wroclaw as its capital, is in fourth place when measured by the number of foreign investments. Mazowiecki contains Warsaw and not surprisingly has the highest number of foreign investments. The following three regions Slaskie (Upper Silesia), Wielkopolskie (capital city Poznan) and Dolnoslaskie all lie in the West of Poland and account for the majority of incoming capital.

Table 5.3 Foreign direct investment in Poland: breakdown by region, 2000

Voivodship	Number of Foreign Investments
Mazowiecki (Warsaw region)	582
Slaskie	266
Wielkopolskie	237
Dolnoslaskie (Wroclaw region)	175
Pomorskie	144
Malopolskie	125
Lodzkie	119
Kujawskie-Pomorsjie	86
Zachodniopomorskie	83
Lubelskie	59
Podkarpackie	57
Lubuskie	51
Sietokrzyskie	47
Warminsko-mazurskie	47
Opolskie	39
Podlaskie	32

Source: Panstowa Agencja Inwestcyii Zagranicnych, 2002

5.2.2 The structure of incoming foreign investment in Wroclaw

An analysis of the sectoral composition of joint ventures in Wroclaw shows that the overwhelming majority of foreign investment in 1997 has been in manufacturing (80 per cent), with only the retailing (6.6 per cent) and real estate (7.7 per cent) sectors receiving investment of any note (Agencja Reklamova, 1998).

The value of capital contributed (see Table 5.4) mirrors the national picture of a small number of flagship investments surrounded by a large number of small FDIs contributing little or no capital. For example, of the top 50 investments in the *voivodship,* 80 per cent contributed less than one million dollars. This underlines the importance of foreign TNCs rather than SMEs in the transformation process.

Table 5.4 Top foreign investments in Wroclaw classified by value in 1997

Millions of Dollars	Number of Firms
10 to 35 million USD	3
2 to 5 million USD	5
1 to 2 million USD	5
0.5 to 1 million USD	10
Below 0.5 million USD	28

Source: Author

Table 5.5 shows foreign investment by *gmina* (sub-region). The vast majority of foreign investment is concentrated in the city, but two *gminas*, Sroda Slaska and Kobierzyce have also received significant amounts of incoming capital. In the case of Sroda Slaski this is largely accounted for by one investment in a Coco Cola bottling plant, and in the case of Kobierzyce by investment from several large retailers as part of an out-of-town shopping complex.

Table 5.5 Foreign investment by *gmina* in the Wroclaw *voivodship* in 1997

City/ Gmina	Value in thousands of zloty	% share of total foreign investment in Wroclaw	City/ Gmina	Value in thousands of zloty	% share of total foreign investment in Wroclaw
Wroclaw	551 421.3	61.6	Wolow	6159.9	0.7
Sroda Slaski	137 698.2	15.4	Dlugoleka	5869.3	0.6
Kobierzyce	86 228.4	9.6	Strzelin	5361.1	0.5
Twardogora	22 152.6	2.5	Olesnica	5011.0	0.5
Brzeg Dolny	21 213.3	2.3	Sobotka	4707.5	0.5
Katy Wroclawskie	18 622.9	2.0	Trzebnica	3434.8	0.4
Olawa	16 382.6	1.8	Milicz	2369.5	0.3
Prusiice	7020.5	0.8	Jelcz Laskowice	1339.3	0.1

Source: Adapted from Urzad Statystyczny we Wroclawiu (Wroclaw Statistical Office), 1998:37.

Table 5.6 shows flagship investments in the manufacturing sector, the mode and year of their arrival and their product. This includes examples of firms from sectors which have been attractive to foreign investors such as confectionary and domestic chemicals in the early 1990s, and vehicle assembly or production from the mid 1990s. Two firms, BOC and Cargill are TNC supplier firms to other large companies rather than final producers.

Table 5.6 Flagship foreign investments in manufacturing in Wroclaw in 1998

Firm	Activity	Year of Arrival	Mode	Location
Cadburys	Confectionery	1994	Greenfield	Kobierzyce
Dolmel (drives)	Engines	1990	Brownfield	City
Dolmel (Electrical)	Electrical installation	1992	Greenfield	City
Dolmel (Turbo	Power generators	1990	Brownfield	City
Vitapolymer	Foam for furniture	1991	Greenfield	Brzeg Dolny
Cargill	Glucose	1996	Greenfield	Kobierzyce
BOC	Industrial gases (admin)	1993	Brownfield	City
BOC	(production)	1993	Greenfield	Brzeg Dolny
GKN	Automobile components	1996	Brownfield	Twardogora
		1998	Greenfield	Olesnica
Armstrong	Foam insulation	1994	Greenfield	Sroda Slaska
Cussons	Household detergents	1993	Brownfield	City
Adtranz	Locomotive engineering	1993	Brownfield	City
Volvo	Truck assembly	1994	Brownfield	Jelcz
	Truck & bus production	1997	Greenfield	City

Source: Author

From the mid 1990s there has been significant investment by large western European retailers, and in particular food retailers using both supermarket and hypermarket formats. Although some food retailers have located in the city most are greenfield developments on large out-of-town sites.

Table 5.7 Inward foreign investment in retailing in 1999

Name of Retailer	Country of Origin	Type of Retailing	Year of arrival
Tescos	UK	Hypermarket	1998
Hit	Germany	Hypermarket	1996
Leclerc	France	Hypermarket	1999
Praktiker	Germany	DIY/Building materials	1998
Carrefour	France	Hypermarket	1999
Makro	Holland	Hypermarket (wholesale)	1996
OBI	Germany	DIY	1998
IKEA	Sweden	Furniture	1996
Castorama (2 stores)	France	Furniture	1999
Biedronka	Portugal	Supermarkets	1998
Billa	France	Supermarkets	1997
Sconto	Germany	Furniture	1999

Source: Author

5.2.3 Past legacies and current restructuring

In most accounts of restructuring previously planned economies, privatisation has been viewed as a prerequisite of the transformation to a market economy and has therefore been the centrepiece of policy. This process is relatively well progressed in Wroclaw and Table 5.8 shows the legal status and employment of the twelve largest State Owned Enterprises (SOEs) in the Wroclaw region. Figure 4.2 indicates the location of these SOEs based in the city of Wroclaw (as opposed to smaller towns) and shows the extent to which they dominate the industrial landscape in terms of land use. Table 5.8b indicates, that although these firms taken together, were large employers in 1990, by 1998/99 their significance as providers of jobs had rapidly diminished. The importance of these firms went far beyond providing employment, but extended, to varying degrees, to the provision of a wide range of social benefits, including nurseries, health care, housing and holiday homes. Several of these firms were national icons, for example Pafawag was the Polish train producing firm, while Polar produced around 90 per cent of the washing machines sold on the Polish market. Further, in 1999 large

SOEs also continued to dominate employment in some of the small towns. For example, in Jelcz Laskowie, Jelcz (producer of trucks and buses) employed 3,000 people, while in Brzeg Dolny, Rokita (heavy chemicals) employed 2,500 people.

The experience of privatisation in the region reflects the experience at the national level in Poland, with the emergence of a range of hybrid firms. At one end of the spectrum are nominally privatised firms where the state continues to hold all the shares by default, and at the other end are fully owned private firms, usually by foreign investors. In between these two points lie hybrid firms where the government maintains a degree of ownership in the company, and firms owned by National Investment Funds as part of the Mass Privatisation Programme, which have more complex governance structures[2].

Table 5.8 Status of and employment in State Owned Enterprises in Wroclaw in 1999

Name of Firm	Activity	Legal Status	Employment 1998/99	Employment 1990/91
Polar	Washing machines & refrigerators	Polish American Fund (35%), State Treasury, (45%), Employees (20%)	3,700	5,500
Hydral	Defence goods	State Treasury Company	1, 650	3,000
Wrozamet	White goods (cookers)	National Investment Fund	1,720	2,000
Polifarb	Paints	State Treasury Company	Not known	Not known
Elwro	Computers	Purchased by Siemens 1990	0	1,480
Pafawag	Train carriages	Purchased by Adtranz (1996) Daimler Benz (1998)	300	4,000
Rokita	Heavy chemicals	National Investment Fund	3,000	4, 200
Jelcz	Trucks & buses	Joint venture Volvo 1992 Purchased by Zasada Group 1997 (Daimler Benz)	3,500	5,000
Dolmel	Engines	Purchased by ABB 1990, bankrupt 1999	0	1,500
Dolmel	Power generators	Purchased by ABB 1990, 50% sold to Alstom 1999, 100% sold to Alstom 2000	632	400
Alfa Lavel	Dairy products	Purchased by Alfa Lavel 1992	Not known	Not known
Dolmel	Electrical switch gear	Purchased by ABB in 1992	200	200

Source: Author

The various forms of privatisation demonstrate a high level of path contingency and are the outcome of a compromise between different interests: foreign and domestic capital, the strategic interests of national government and workers with a strong tradition of worker participation (Hardy and Rainnie, 1996). By 1999 in Wroclaw out of the twelve SOEs listed, two remained as State Treasury companies, where the government continued to be the major shareholder and caretaker. In eight companies foreign investors have bought the majority of shares, ranging from 52 per cent in the case of Polar to nearly 100 per cent in the case of Pafawag and Dolmel. Two firms are owned by National Investment Funds. Therefore foreign investors have been central to the privatisation process by investing in the most economically and politically significant SOEs in the region.

5.3 STRUCTURAL INFLUENCES

Following the taxonomy presented in Table 3.1 the first aspect of structural embeddedness relates to the way in which the nature of competition in the sectors from which the firms are drawn, influences the way in which they are linked into the local economy.

5.3.1 The nature of competition

An uncritical acceptance of the location or relocation of production on the basis of low wage costs lies at the heart of the New International Division of Labour [3] (Froebel *et al,* 1981) and has also been central to neoclassical predictions of FDI and transformation in CEE (Lipton and Sachs, 1990). Pavlinek and Smith (1998) see FDI entry into the Czech and Slovakian republics as primarily motivated by accessing low costs, and point to *maquiladora* regions on the border with Germany. While they conclude that the outcomes in terms of supply linkages are complex, Grabher (1992 and 1994) suggests that investment on the basis of low cost produces ‘cathedrals in the desert’, firms which are isolated with little impact on or engagement with the locality. This section examines how far low wage costs can explain the location of FDI in Poland generally and Wroclaw specifically.

In contrast to the case studies of Pavlinek and Smith (op.cit) all of the incoming FDI firms in this study gave establishing a foothold in the markets of CEE with an eye to emerging markets in the Ukraine and Russia, as the primary reason for entry. Although Poland was viewed as a much more risky base than for example Hungary [4], this was offset by the fact that it had a significantly larger market of 38 million people compared with 12 million in Hungary. The possibility of accessing markets from outside of Poland was limited by several factors. In the case of consumables such as soap powder and confectionery, the existence of substantial tariffs coupled with a need to access specific local knowledge meant that a physical presence in the market was required. In the case of vehicles, tariffs on imported trucks and buses were prohibitive at between 35 and 40 per cent. High transport costs and relatively low value added in the case of industrial gases, foam pipes and foam meant that it was necessary to produce in the Polish market.

The reasons given for firms locating in Poland, however, extended beyond market access. In the case of six companies, market domination as part of international oligopolistic competition [5] was imperative. Essentially competition was on the basis of product differentiation, and it followed that market information, marketing and advertising were critical. Thus six of the case study firms (BOC, Cadburys, Cargill, Volvo, GKN and Tesco) were part of an international picture of oligopolistic competition replicated within Poland albeit in a slightly different form from other economies depending on individual corporate strategies and sectoral trajectories. In producing solely for the Polish market, none of these firms produced for the wider industrial network of the parent company, neither did they have world or regional mandates (Roth and Morrison, 1992). The pace of restructuring and intensity of competition was such that firms in these sectors were seriously disadvantaged if they had failed to enter the market at an early stage [6]. In the case of ABB and Adtranz, the scale of competition and nature of production in heavy engineering, where there are significant economies of scale, made them one of a handful of companies who competed for large projects across the globe. Their presence in Poland was a reflection of global competition where market domination was an explicit aim.

In the case of Tesco, the home market had become saturated as restrictions on further out of town development constrained further expansion. Investment abroad was also driven by the fact that European competitors and suppliers had adopted internationalisation strategies. While forays in the early 1980s by Tesco into France and Ireland had been aborted due to strong indigenous competition and stringent planning laws, CEE in general was considered an attractive site for investment because of the combination of a large market and ambiguous rules regarding planning.

Only one firm, Armstrong, gave low costs in addition to market access as a reason for locating in Poland. Low wage costs were not reported as being of primary importance for any of the other twelve firms, and were considered to be a bonus rather than a prerequisite for entry. However, although low wage costs were not given as an initial reason for location, in the case of two of the firms the situation was more complex.

Adtranz invested in Pafawag, the train producing firm, as part of the privatisation programme. This gave them ownership of manufacturing capacity, which potentially provided units for the third largest railway network in Europe. Part of the FDI agreement was that the government would place an order for new rolling stock worth $90 million with the company. Once the acquisition had been negotiated, initially on the basis of market access, the possibility of new strategies within the firm's global industrial system opened up. With the cost structure in Poland one twentieth of that of Switzerland, in 1998 Adtranz was planning to supply train shells to other parts of its global structure. In the case of Volvo, the initial investment was in assembly production to access an expanding market for trucks and buses in Poland. In 1999, on the basis of a skilled labour force, low wages costs and high quality production within the Wroclaw factory, top management closed Volvo's four bus producing plants in Europe (Scotland, Belgium, Finland and Germany) to relocate all production on an expanded Wroclaw site (this is discussed in detail in the next chapter).

Therefore there is little evidence to suggest that the firms had arrived on the basis of low costs to insert local networks into global chains on the basis of low value added processes. The entry of all firms is a reflection of the exigencies of global competition (oligopolistic or otherwise) which demanded internationalisation strategies. On this basis at least the pessimistic prognosis of Wroclaw as a low cost enclave is unjustified. However, this dichotomy based on low cost and market access may be simplistic and static. The arrival of firms had initially been driven by market access and domination, increasing competition and contracting profit margins. However, in the case of two of the firms, headquarters reconsidered the role of the Wroclaw subsidiary in the context of their global networks. The ability to produce high quality goods with relatively low wages led to the restructuring of production and sourcing to take advantage of the preferential cost structure in Poland.

5.3.2 Knowledge and technology transfer

This section examines the claim that bridgehead investments which have taken place, on the basis of market access are related to positive trends in internal restructuring, namely, the transfer of skills and competences which will upgrade human capital, increase local autonomy and create better quality linkages in the locality (Grabher, op.cit).

All brownfield FDIs reported upgrading products, processes and logistics. Initial and planned investments were aimed at ensuring that the level of technology in the branch plants, both brownfield and greenfield, was comparable with processes in the home country. It should be noted, however, that there were variations in technological disparities between SOEs and comparable western plants, which meant that in some cases only minor upgrading of processes was necessary. An illustration of this variation is provided by BOC. The previous national SOE, Polgas, purchased two new plants as part of the import led growth programme in the 1970s [7]. However, financial strictures meant that it could only purchase one plant, which was 'state of the art' from the United Kingdom, and a second, that was technologically inferior, was bought from East Germany. Therefore, rather than assuming uniform backwardness we should understand the legacy of the old regime in terms of uneven technological advancement.

Generalisations about the benefits of technological upgrading brought about FDI have deflected attention away from the fact that the most marked changes have occurred in the restructuring of management and management functions. The example of Cussons illustrates the mixed legacy of SOEs. When the company was taken over it was described by the Managing Director as;

> A small, well-managed business which was profitable. There was excellent control of working stock. They knew what just- in-time was and practised it. The workforce was well educated and productive although the plant was old and overmanned.' (Manager Director of Cussons)

He challenged the received view that Polish managers were not entrepreneurial. He reported;

> We also found resourcefulness, an attitude bred from the past 50 years. For example, the 'spare parts department' was a heap of scrap metal, from which the management had found lots of machinery to keep the plant running......' (ibid)

However, the Managing Director suggested that under the previous system accounting, logistics, quality and sales and marketing were functions that were practically non-existent.

> We found very little quality consciousness. As long as the boxes were full everything was OK. What's more they occasionally substituted ingredients! Marketing was non-existent. There was no market research. We didn't know who our customers were; we didn't even know where they were. Sales organisation was limited to man who sat by the telephone which occasionally rang. There were no growth plans. Sales plans were measured against what happened last year. Furthermore there were no exports. Export to the east, to former soviet countries had been a very important market.........Teamwork was completely lacking. All decisions were sent to the president. I remember large queues of people from the ground floor to the first floor (where my office was) all awaiting decisions. Organisation was extremely centralised. Nor were there any pay differentials. Some supervisors got even less than the operatives. We found lots of data but little useful information. For instance there were no cash flow forecasts or daily sales analysis. There was not much money nor was there much English. One engineer in the factory spoke a little English............ When we arrived there were six Russian computers still in their boxes and a workforce that was computer illiterate (ibid).

ABB Dolmel (power generators) and Cussons provide examples of upgrading that were typical of the internal restructuring that took place in all of the brownfield sites (with one exception). In the case of ABB Dolmel (power generators) between 1991 and 1994 they had already transferred existing technology from other firms in air cooled generators, improved and stabilised quality and reduced production cycles, and had also begun the process of integration with other Dolmel technology centres. In terms of organisation, stress was placed on quality consistent with ISO 9001 and making the necessary adjustments to internal structures. In addition, they were preparing to implement integrated computer systems to support the management of production, finance and trade activity. The use of technology was crucial for integrating the branch plants with the parent company.

In Cussons quality management was introduced with improvements in packaging and soap powder formula. The Research and Development department in the home country used value engineering to achieve significant cost reductions. The firm introduced marketing management and in particular market research into product preference. An increased emphasis on sales management has meant that the number of sales personnel was increased from zero to 125 people. This emphasis on sales and marketing was also found in Cadburys and BOC. In the firms studied which produced directly for the consumer market, skills associated with market research, marketing, product differentiation and sales were critical areas of competition. In brownfield investments the notion of logistics was non-existent, and part of the restructuring process was to focus attention on the management of supply chains, distribution and optimising stocks and storage.

What emerged from these case studies, and other research (Amsden *et al*, 1994; Hardy and Rainnie, 1996) was that Polish enterprises were not uniformly poor and backward in relation to western counterparts in terms of the hard technology employed. There were significant variations both between and within sectors. In all cases, however, what was missing was tight managerial control over the full range of the production process, and in particular Western managerial practices in the areas of financing, accounting, marketing and human resource management. While improvements in hard technology could be described as incremental, changes in managerial practices had taken a quantum leap, with the most significant skills transferred being in areas associated with oligopolistic competition. As we shall see later, there were profound implications for the remaining SOEs (or newly privatised SOEs) which continued to be large employers but lacked, to varying degrees, both the resources and managerial skills to compete in international markets.

These FDI bridgehead investments have transferred managerial skills, but with regard to individual workers the effects were differentiated. The picture of Polish managers employed in senior managerial positions was mixed and dependent on corporate strategy. Volvo had four senior Swedish managers in place for four years whereas 'locals' quickly replaced expatriate managing directors in all the other companies. At the level of middle management in areas such as HRM, marketing and finance, employees tended to be Polish and recruited locally. The direct beneficiaries were mainly, but not exclusively, young people with university level education and fluent English. For the region human capital was upgraded, at least in terms of managerial skills, and opportunities were opened up for the young and educated which had not existed previously.

5.3.3 Supplier linkages

It has also been argued that bridgehead investments, based on market access would bring about indirect employment creation through the establishment of more extensive and qualitatively better local supply networks that would embed firms in the locality. One of the major claims of the benefits of FDI at a local level is that a multiplier effect would be created through incoming firms establishing links with local suppliers. This, it is held, stimulates local suppliers to upgrade products and processes thereby encouraging the location of further FDI. These effects would not simply be confined to suppliers of components but would encourage a range of financial and business support services to emerge. Thus the interaction of foreign capital with local firms would lock the region into a virtuous circle, not only upgrading individual firms, but the business environment and the infrastructure.

In the case of the thirteen case study firms there appeared to be few spillovers through using local suppliers for raw materials or components. In the cases of Cadbury, Cussons, and Cargill local purchasing meant buying bulk materials from elsewhere in Poland and other countries. In the case of Adtranz, part of the negotiations to purchase the company was an agreement that the company would source 50 per cent of its components in Poland within three years. In ABB Dolmel (power generators), copper and steel were important inputs of production. However, copper produced only fifty miles away in Poland was not of sufficient quality to be used, and was therefore exported to Germany where it was upgraded and resold to ABB Dolmel (power generators). Overall, the thirteen investments had few primary economic linkages with or reliance on the region. The significant exception to this are the implications of Volvo's decision to relocate all of its European bus production in Wroclaw, which has had a significant multiplier effect and brought about new local networks. In 1999 two major components suppliers were in the process of transferring production to adjacent sites.

TNC food retailers were starting to restructure their supply chains, which would have both national and local impacts. In 2000 Tesco were still dealing with a large number of suppliers in Poland, but as in the UK they were looking to develop longer term special or preferred relationships. Part of this process was to identify potentially good suppliers and work with them on organisation, logistics and technology. While Tesco would not finance suppliers directly it enabled these firms to borrow money from the bank to make improvements on the basis of their contracts with a large retailer. Examples of organisational change that were supported by Tesco included the use of transport, pre-packaging during transport, stock files, increasing quality and getting ISO 9001. Restructuring supply chains was at an early stage in 2000, but it is likely that a process that developed over a decade in Western Europe will be accelerated and completed in a relatively short space of time in CEE. This will have a profound effect on producers whose fortunes will be tied to whether they are locked into or excluded from supply chains. In particularl, local suppliers of fruit and vegetables in a fragmented agricultural economy would be in competition to supply hypermarkets which would be looking to only a small number of preferred suppliers in a 50 kilometre radius.

One of the most interesting insights in terms of the impact on linkages is that two of the firms themselves (Cargill and BOC) are suppliers rather than final producers. Rather than incoming investment providing opportunities for indigenous suppliers, it was the case that the suppliers themselves were significant TNCs. For example, BOC's primary customers were Polish steel producers and large foreign investors in soft drinks, food processing and glass production. Cargill were major suppliers for the food processing industry which was dominated by TNCs and the second biggest category of foreign investment in Poland in 1998. Managers of these supplier TNCs suggested that it was part of their strategy to establish long term customer/primary supplier relationships which raises questions of the displacement of indigenous firms as a result of competition from foreign competitors. This finding is in line with other research which points to recent trends in sourcing across a wider geographical boundary and with primary preferred suppliers and suggests that this may not be conducive to linkages at a local level (Amin and Dietrich, 1991; Rainnie, 1993).

In some cases suppliers were only able to enter into medium and long term contracts with TNCs on the basis of up front investment. For example, in 1996 BOC needed to purchase several nitrogen trailers at a cost of £45,000 each in order to service French and German glass producers. There was no evidence to support the claim that foreign investment would provide opportunities for local suppliers either through increasing the demand for particular supplies or components or through the competitive impetus. Rather it is the case that Polish firms may be left in the interstices and niches of production without the necessary technology or the financial means to acquire it to lock them into global chains.

However, while the case study firms used local suppliers for physical inputs to a limited extent, they had a much more positive effect on the demand for a range of business services such as training, consultancy and accountancy which had a significant impact on the local infrastructure of business services. Consultants Ernst and Young arrived in 1993 and by 1998 employed 60 people with 80 per cent of their work coming from foreign firms. Arthur Anderson arrived in Autumn 1997 and employed 30 people. Arthur Anderson had gained extensive experience of the Polish market by undertaking contracts in Warsaw for the PHARE [8] programme, and restructuring banks as part of a

World Bank funded initiative. A senior manager at Arthur Anderson suggested that the growing importance of the Wroclaw region meant that it could no longer be serviced from Warsaw. Personal contacts and knowledge of the local context meant that a base was necessary in the area, particularly because they were interested in the SME market. Arthur Anderson offered advice on strategic investments, warehousing, logistics and the purchase of real estate. A recent and significant area of growth in their services was in response to firms outsourcing finance and accounting functions, pay roll processes and personnel functions as they concentrated on their core activities. Arthur Anderson also provided a range of human capital services, incentive strategies, employment policies and, particularly, assistance in administering the new social security system reforms which include mandatory state and private insurance contributions.

Not only did the stimulus of FDI in manufacturing contribute to the arrival of significant international consultancies but also stimulated the development of indigenous consultancy firms. Otrek ranked as Poland's seventh largest (second outside of Warsaw) training firm. The growth of this firm was not only attributable to the existence of a market and growing demand for services, but also from receiving funding from the British Know-How initiative. Finally, the demand for services from businesses has acted as a stimulus for the growth, of certain departments at least, in local institutions of higher education such as the Academy of Economics, the University of Wroclaw and the Technical University of Wroclaw, concerned with management training or business consultancy.

The arrival of expertise in the form of consultancy companies, the development of appropriate provision in institutions of higher education and a range of support services contributed to a pool of locally based expertise and the upgrading of human capital in the region through the creation of a layer of educated, trained individuals to develop, promote and cascade learning.

5.3.4 Labour market impacts

Table 5.9 provides a summary of total employment and new job creation in the thirteen case study firms. In the short term, the overall number of jobs has been generally protected in the brownfield sites, attributable at least in part, to the fact that the privatisation agreement obliged firms to maintain current employment for eighteen months.

Table 5.9 Job creation and realised investment in Wroclaw's leading foreign investments in 1999

Firm	**Products**	Mode	Realised investment £ millions	Current Employment	Net job creation
Cadburys	Confectionery	Greenfield	18.7	300	+ 300
Dolmel (Drives)	Engines	Brownfield	0	0	- 1000
Dolmel (Electrical)	Electrical installation	Brownfield	Not known	200	+ 150
ABB Dolmel (power generators)	Power generators	Brownfield	3.4	630	+ 190
Vitapolymer	Foam for furniture	Greenfield	Not known	50	+ 50
Cargill	Glucose	Greenfield	35.1	70	+ 70
BOC	Industrial gases	Brownfield	Not know	50	0
GKN	Brake shoes	Greenfield	Not known	205	0
Armstrong	Foam insulation pipes	Greenfield	Not known	48	48
Tesco	Hypermarket	Greenfield	Not known	600	+ 600 (part time)
Cussons	Household detergents	Brownfield	15.2	700	0
Adtranz	Locomotive engineering	Brownfield	8.1	1,200	0
Volvo	Truck and bus assembly	Greenfield	10.5	300	+300

Source: Author

In the case of two of the greenfield sites, the number of jobs created could be regarded as disproportionately small in relation to the size of the investment. In the case of Cadburys, the largest investment in the region in 1999, the number of people employed was 300 and in the case of its immediate neighbour, Cargill, a £35 million investment led to the creation of only seventy jobs. In four of the brownfield investments (BOC, GKN, Cussons, Adtranz) there was no new job creation, although internal reorganisation had shifted the structure of employment from production into marketing, human resource management and logistics.

In terms of salaries in 1999, managers and workers in brownfield and greenfield investments, consistently reported wages being fifty per cent higher than the local average wage in similar firms for non-managerial jobs.

There were also less well publicised examples of disinvestment and job loss as a result of foreign investment. It was reported that in 1991 the computer firm Elwro was taken over by Siemens in order to establish a foothold in the computer and telecommunications market. Although part of the privatisation package was an agreement to maintain employment, the level of payment offered to people to persuade them to leave their jobs was so attractive that 3,500 jobs were voluntarily relinquished.

It is not simply the number of jobs that have been created or lost, but also the quality of employment. Six hundred, mainly part time jobs, were created at Tesco with women making up 90 per cent of the employees. When multiplied by the other foreign owned food retailing TNCs this represents a significant new area of employment growth. However, whether this represents quality employment is both ambiguous and subjective. Women have borne the brunt of the transformation process in Poland and CEE generally (Einhorn, 1993; Hubner *et al*, 1993; Czertny, 1998; Ruminska-Zimny, 1999) and comprise the largest proportion of the unemployed. Women who lived in small towns and villages of the Wroclaw region had few, if any, employment opportunities. Describing her job at Tesco one woman said 'This was a chance for women to survive'[9]. This attitude was reflected in the fact that several women travelled forty kilometers to work a four hour shift at a rate of £1 per hour. In contrast, women interviewed in the Polar SOE, where wage levels were relatively good, the jobs were full time and where there was still a range of social facilities, did not regard work in the retail sector as an adequate replacement for their jobs that were under threat.

5.3.5 Competition Effects

The competitive impact of incoming TNCs will have important consequences for existing firms. In the neoliberal view this will be the impetus for the restructuring of domestic firms to become more efficient. Pessimistic views, however, see firms within CEE as without the resources or access to funds to compete with international oligopolies. There was only one indigenous firm that faced competition within the *voivodship*. The abortive joint venture between the Polish SOE Jelcz and the foreign investor Volvo, and Volvo's subsequent investment in a greenfield site ten miles away, meant that they became competitors rather than collaborators. The impact of FDI in other sectors is ambiguous. In Poland as a whole the presence of foreign investors in confectionery and industrial gases, for example, has left only two indigenous firms in each sector and household chemicals are almost completely foreign owned. FDI in the Wroclaw region will have an effect on indigenous firms in other localities, with the corollary being that TNCs in other areas of Poland will have an impact on indigenous firms in the Wroclaw region.

It is too early to gauge the impact of FDI in other parts of Poland on recently privatised SOEs in the Wroclaw region. For example, Rokita employed 2,000 people in a small town gmina twenty miles outside Wroclaw. It is part of the Mass Privatisation Programme whereby the majority shareholder is a National Investment Fund (NIF). Competition in the chemical sector has intensified with an influx of foreign firms, and it is not clear how far Rokita's 'hybrid' privatisation can secure the financial resources for the considerable upgrading which is necessary to reach the standard of Western companies. Thus the profitability and long term ability to maintain jobs in these firms will depend crucially on their ability to compete in a market with foreign investors located in other parts of Poland. These competition effects are examined in detail in the case study of the Polar SOE in section 5.5 of this chapter.

5.4 INSTITUTIONAL EMBEDDEDNESS

Chapter Three emphasised firms as reflexive and political in crossing national boundaries and locating in new institutional set ups. This section looks at the nature of the relationships that firms developed with formal institutions at various spatial levels to gain either entry or ownership. Outwith the formal structures of local and regional government, informal relationships between large firms were important for gathering and disseminating important knowledge about the locality. The last section examines the impact of foreign investment on the institutions of the workplace.

5.4.1 Brownfield foreign investment: institutional engagement at the national and workplace level

In Wroclaw, flagship foreign investments arrived by two routes, either as brownfield investments as part of the privatisation programme or greenfield investments. Brownfield investments included Cussons, ABB Dolmel (power generators), ABB Instal, ABB Dolmel (Drives) Adtranz, BOC and GKN. In all of these cases geography and locality had no specific influence on the decision to invest, except insofar as target firms happened to be located in the region. For example, in the case of BOC, five packages were drawn up as part of the national privatisation programme of Polgas, the state monopoly industrial gases firm, by the government. The company bid for the package which included the Wroclaw plant.

> It was actually strongly influenced by the local element, which was nothing to do with geography. It happened to be the package that had the combination of the best equipment and given that type of equipment they had the strongest market position.... So it wasn't about geography, it wasn't about crossroads, communications or anything. It was a package Wroclaw was part of. (Senior Manager BOC UK)

Similarly, location was unimportant in all of the brownfield foreign investments. In the case of Cussons the brownfield acquisition was motivated by a desire to buy into existing established Polish brands to gain market share and position. GKN took over the production of components from Fiat which was concentrating on core operations, while Adtranz purchased the Pafawag national train wagon making factory which was located in Wroclaw.

Entry by the privatisation route required a significant degree of institutional engagement, which took place at national and workplace level. However, in the case of all six case study brownfield FDIs completed through the privatisation programme, the negotiations by-passed the *voivodship* and took place between high level managers from TNCs and ministers and bureaucrats in various Warsaw Ministries, and between prospective investors and Workers Councils. These negotiations were protracted and the outcomes reflected the competing and negotiated claims of foreign and domestic capital, the government and organised labour (Solidarity in particular). Regional institutions were not consulted and the implications for the locality were given little or no consideration in the process and outcome of the deliberations.

Engagement was also necessary at the level of gaining the legally necessary agreement of the factory Workers Council. As we have seen the relative strength of Workers Councils and Solidarity have been a critical factor in the process and outcomes of privatisation at a national level in Poland, a phenomenon underplayed in the political economy of transformation (Rainnie and Hardy, 1995; Thirkell *et al*, 1995). The necessity for the agreement of the Workers Council for a firm to be privatised was embodied in the original privatisation legislation in 1990. As we shall see Solidarity played a crucial role in the transformation of two large workplaces in the region. In 1995 Volvo had initially set up assembly facilities as a joint venture with the Polish firm, Jelcz, a truck and bus building plant, but negotiations to purchase the plant were blocked by Solidarity who would not agree to a 50 per cent reduction in employment. In the case of the Polar SOE the form and pace of privatisation was strongly contested by Solidarity, as we shall see in the next section.

In most of the brownfield sites (for example, Cussons, Dolmel, BOC) the relationship with unions had been one of accommodation and cooperation. In BOC and Cussons unions had agreed to privatisation by the current foreign investors after presentations by prospective buyers. In the case of the privatisation of Dolmel, Solidarity were dissatisfied about the way the firm was broken up and cherry picked, by splitting the firm into four parts and leaving the least profitable in the hands of the state. They reported reluctantly cooperating with the deal and as one Solidarity Official reported, "We agreed at the time because our imagination was limited." In other words this was the only offer on the table. In Adtranz Solidarity representatives played the role of intermediaries. They could see no alternative outside of a strategic investor and saw their role as paving the way by shifting attitudes away from collectivism and towards an understanding and an acceptance of notions of competitiveness, individual responsibility and the necessity of job reduction. In their role as mediators full time Solidarity officials were called to Volvo where there was a communication problem between young Polish managers in personnel who adopted an autocratic approach to management and shop floor blue collar workers who had carried over expectations about consultation from the previous regime. Relative job security and wages that were slightly higher than the local average in most FDIs, meant that few problems of industrial relations were evident. The exception was ABB Dolmel (Drives) where Solidarity had unsuccessfully protested over a period of seven years against asset stripping and job reduction from 1,500 in 1990 to 200 in 1997.

5.4.2 Greenfield foreign investment: engagement at the sub-regional level

Cadburys, Cargill, Volvo, Armstrong, Vitapolymer and Tesco were all greenfield investments. The area of Lower Silesia, of which Wroclaw is part, borders Germany and was identified in all cases as the general area that was considered for location. The West of Poland has the majority of the population, a better infrastructure than the East of the country and proximity to Germany. One manager suggested that attitudes to work and change improved as one travelled from East to West Poland. Although the majority of the FDI is located in Warsaw, the not-Warsaw factor was strong as the capital city was viewed as expensive, bureaucratic and having strong unions. As a senior Manager from Cadbury explained:

> Warsaw seemed a bit of a nightmare, wage rates were higher, it was heavily unionised and transportation was congested. It had everything against it. (Regional Development Director/Project Manager Poland of Cadbury)

Individual local actors at a sub-regional level were also important in the decision to locate in Wroclaw *voivodship* rather than other possible locations in the Silesia area. In particular, local mayors in two small gminas were successful in courting FDI and persuading firms to locate in their fiefdoms. These local mayors were successful in establishing the necessary infrastructure and dealing with red tape in a way that was described by one foreign investor as, 'on the borders of legality'. There were many bureaucratic hurdles such as permission to buy the land, right to use the water, visa and work permits for senior staff which were dealt with by different departments at *voivodship* or national level. Old contacts and networks meant that local actors at the *gmina* level were able to accelerate processes and procedures.

> The mayor of the *gmina* was quite a character – he drove the whole process. The *voivodship* contributed nothing. It was meeting the mayor and finding as Margaret Thatcher would say 'someone we could do business with' – that was crucial. He had to persuade the *voivodship* to give him a piece of land for industrial development. He was hellbent on getting quality investment. (Regional Development Director/Project Manager Poland of Cadburys)

Dealings with central government were regarded as bureaucratic and cumbersome, and permission to buy land held up the process by six weeks in the case of Cadburys and the only other dealings, which were to apply for a tax holiday, were described as a 'fiasco'.

> Our experience is that it is 99 per cent the local mayor, other people in the *voivodship* were irrelevant. The only things that worked properly for us in Poland were things we did in the local village with the local mayor. That in a nutshell was our experience. (Regional Development Director/Project Manager Poland of Cadburys)

This should be put in the context of Cadbury being one of the first major investors in the area. Subsequent firms faced fewer problems and had a more positive experience finding the municipality more helpful in dealing with the necessary bureaucracy.

In the case of greenfield investments questions of locality and institutional avoidance came in to play with varying degrees of importance. It should be noted that we cannot read off from the sector whether a TNC would choose greenfield or brownfield route of entry. The strategy of TNCs within sectors was not homogeneous, in the case of vehicles and confectionery firms, for example, both brownfield and greenfield strategies had been adopted. However, in all cases managers of greenfield FDIs reported a desire to circumvent existing structures and institutional legacies. The view was that negotiating with existing institutions, such as current management and the government was too costly and that the inherited legacies of past behaviours would be an obstacle to restructuring. The negotiation of agreements with the government regarding employment protection and agreement about levels of investment were regarded as protracted. In particular, one motive for greenfield investment was a desire to circumvent Workers Councils which were seen as potentially obstructive, and once established managers were keen to keep unions out. Solidarity suggested that workers employed were expected to trade in union rights for a wage level higher than the local average, and that it was made clear that a job offer was conditional on not being a member of a trade union. In 1996 one foreign investor in the food retail sector sacked a worker for joining a union, although they were then reinstated after legal action instigated by regional Solidarity.

Brownfield privatisations reported having to offset potential problems with institutional and behavioural legacies against the advantages of buying firms with an existing market or brand name that offered them instant access to markets. The Managing Director of GKN elaborated on the advantages of greenfield, citing freedom for the employer to select the number, age range and educational level of employees as an important benefit. Further he explained that new appropriate structures could be set up from the beginning and decisions taken about in-house or external sourcing. In particular they 'can ensure that Trade Unions are kept out'. In contrast, the inheritance of brownfield acquisitions meant acquiring too many employees with an inappropriate age structure, and with the wrong proportions employed in production and administration. It was argued that there were problems in introducing change, which could result in the demotivation of the workforce, and push people towards trade union membership and activity.

As we have seen *voivodship* levels of government and governance were largely by-passed by incoming foreign firms. In Chapter Four we saw that regional structures, particularly those relating to foreign investment, were embryonic and inexperienced. This situation was compounded by the way in which brownfield acquisitions were negotiated at the national level with the relevant Ministry with little concern for or sensitivity to the region. A case in point is that in adopting a sectoral approach to privatisation the Government insisted that Siemens bought a bundle of firms to avoid the problem of the best ones being 'cherry picked'. This strategy backfired in the locality because the Wroclaw part of the bundle was surplus to requirement and the factory was quickly closed in the early 1990s.

5.4.3 Firms as reflexive and political

Reliance on formal local institutions was reduced by two factors. First, that large TNCs were experienced at establishing production or sales across national boundaries and second, that firms were active networkers in exchanging information and codifying tacit knowledge. Most firms reported conscious decisions to internationalise and/or restructure from the mid 1980s onwards. It followed that firms had created dedicated departments responsible for identifying new markets and searching out new locations. Therefore senior managers were proactive prospectors and internationalisers, with a wealth of experience from operating in Europe, South America, Asia, Africa and more recently China. A common approach was to send a team comprising technical and managerial personnel to undertake the search for new sites and to undertake feasibility studies. In the case of Poland they generally started in Warsaw and worked their way West. These 'prospectors' from TNCs anticipated problems and had experience in identifying people who could get things done, and where, if possible, accelerate processes and circumvent formal structures. This does not imply that there was one best way or blueprint, or that mistakes were not made in starting production in what, in the early 1990s, was uncharted territory. However, the importance of completing the investment and getting established in a particular market was far greater than local difficulties that were encountered, which were cited as frustrating but only a temporary inconvenience in the longer run of maintaining or gaining competitive position.

In the case of Tesco the first part of their entry strategy was to take over a small chain of Polish supermarkets to gain insight into and knowledge of Polish supply chains in

1994. The next step was to open twelve hypermarkets in Poland, the first of which was opened in Wroclaw in 1999. Tesco had extensive information from which to make broad choices about location. The European Development Director explained:

> We have priority targets for where we want to be. We probably have 70 to 100 possible locations identified in Poland. For that process we have a small team of researchers who look at the classic data. Where is the money? Where are the people? What is the rolling structure – the human flow? Then for example, you identify you want to build a site in Poznan and you go out to Poznan and meet the mayor and say OK how do you feel about hypermarkets and he'll say these are the areas where I want to put hypermarkets. Well do you own the land? And the whole thing starts to move. (European Development Director Tesco)

Tesco was good at combining their accrued experience with local knowledge:

> I have a property team of 60 to 70 people who buy the sites and build the stores. They would employ consultants to help them with specialist advice and they are overwhelmingly based in the region or countries. (European Development Director Tesco)

Once the land was purchased and the necessary permission established, they had a team whose exclusive brief was to open up the new stores and oversee the first few months of trading before starting the next project. The team was comprised of experts in recruitment, training and sourcing drawn from senior managers in the UK and newly recruited Polish managers. The accumulation of experience and learning meant that the establishment of each new hypermarket was incrementally easier. Successful formulas were fed back to central office where a newly established department continually updated and adapted the blueprint for opening new stores.

The CEO Tesco Poland reported that they had developed a highly successful recipe for the opening ceremony of new stores, which included the attendance of the British Ambassador, the president of the *voivodship* (local authority) and the local Bishop. The involvement of agents of local institutions bestowed approval and legitimacy on the activities of the firm, and suggested a sophisticated level of relational marketing. As supermarkets and hypermarkets have increasingly been in the public eye [10] and as the

UKs largest investor in Poland, Tesco had attempted to develop and maintain good relationships at a national level and the CEO had met with government ministers at least ten times between 1998 and 2000.

5.4.4 Relationships between large firms

The second factor that reduced reliance on local institutions for information, was that vital sources of information and local knowledge came from networking between foreign investors. All senior managers responsible for locating sites and starting greenfield projects reported using other firms to gather information regarding key personnel in the locality, identify who could get things done, establish what problems might be encountered and how they might be overcome. Flagship companies provided an important demonstration effect, but also supplied practical information regarding relationships with building contractors, architects, and consultants that could be used by other companies. Networking not only took place outside the locality, but outside of the country. The European Development Director of Tesco explained:

> The story of the Wroclaw store was our property guy, who is British, who lives in the UK but spends about two thirds of his working week in Central Europe, went to a property exhibition in the South of France, which was a pan European jamboree. He bumped into the property director of IKEA who said I've got a site in Gdansk, would you like to come in along side us. I said I don't think we are really interested in Gdansk – what else have you got? And the conversation developed and we ended up building a store in Wroclaw (next to IKEA). (European Development Director of Tesco)

BOC reported feeding information back to firms, with whom they had long term supply relationships in the UK about conditions in the Polish market as a whole and the locality in particular. Senior managers gave other examples of where they had jointly assessed the prospects in particular markets with companies which were either their suppliers or major customers such as British Steel.

A distinction was drawn between getting information about what actually happened as opposed to how things were supposed to work. Once established all firms reported acting as sources of information for other firms considering locating and producing in the area. Once firms arrived in the area this relationship continued and networking took place to exchange information on employment issues, salary surveys and unsuitable employees through a number of expatriate organisations such as the British Club, British Chamber of Commerce and the International Club. Frequent contact took place particularly between firms from the same country of origin and in particular Sweden and the UK. Thus early entry FDIs were able to quickly transform tacit to codified knowledge.

5.4.5 Changing the institutions of work

Chapter Three argued that large foreign investors played a critical role in institution bending, that is bringing about a shift in collective understandings about economic behaviour necessary to underpin their production activities. The corollary of trying to instill new management practices, was that old legacies considered to be a block on new ideas and necessary change had to be replaced. The first issue was related to retraining incumbent management. A senior manager from BOC suggested that there was a whole raft of experience that was simply not there when they took over the firm in 1994. It was suggested that the hierarchical nature of SOEs meant that younger and brighter people had no status, and there was hostility to the introduction of a marketing team, who in the view of the incumbent workforce had the twin disadvantages of including women and non-engineers. There was resistance to other changes relating to the spatial reorganisation of the firm. BOC's original site for both administration and production was in the city centre. It was proposed to move production to a brand new site at Brzeg Dolny (a small town twenty kilometres from the city) and drastically refurbish the old production site for administration by converting it into open plan offices. Open plan offices were met with a great deal of suspicion because of the lack of privacy, the challenge to hierarchy and the possibility of surveillance. Further senior managers from the UK reported cultural differences in problem solving.

> We have our facts and figures they have got their emotions. Run, shout, lots of energy. Although they can generate numbers they are not used to using them to manage or to understand what action needs to be taken. (Senior Manager of BOC)

Old routines also influenced the way the time frame within which managers operated.

> They can't believe in the future until it becomes the past. Even when it's the present they can't quite believe that it's happening. Before the lorry is parked outside they can't believe it exists. This presented problems for planning because they couldn't understand that you could plan a deal in four months time and simultaneously get the equipment. They were locked into a linear way of thinking, which meant that first they had to have the equipment and get it going and then they could start thinking about planning and how to sell it. (Senior Manager BOC)

Extensive training for all management level employees and in most cases for supervisory workers and technical workers, was an important way of shifting 'old mind sets'. There were frequent trips by senior management from the home country to Poland and Polish managers to the UK and other European centres. Meetings and conferences took place between managers with similar functions in different European branches to instill and diffuse best practice. This was aimed not only at rapidly establishing and consolidating new management techniques and integration with the parent organisation but also served the purpose of incorporating the individual into the organisation and encouraging the view that they were part of an international company.

Anecdotal evidence suggested that new ways of working and thinking were sometimes embraced with too much enthusiasm by some employees. In four of the case study firms tensions had emerged between young Polish managers (or trainee management) and generally older manual workers. Young Polish managers were recruited and promoted on the basis of their ability to grasp and accept reform and change and were critical of manual workers for having the 'wrong mentality' and their resistance to change.

Apart from replacing existing managerial legacies with those that were in line with western business practices, another task was to instill new attitudes to work in production workers. The Manager of Cadbury complained that workers were undisciplined,

> Employees were drawn from surrounding villages. They required a lot of training. Working life in the village was very different. People were not used to coming in at a certain time every day and working for fixed hours. For example, when the plum

> harvest was on people simply did not turn up. In the beginning they were very sloppy about the way they did things and coming in. There was an understanding that you were paid a wage and supplemented that with anything you could put in your pockets at the end of the working day. (The UK Cadburys chief)

GKN had bought a components firm from Fiat as it restructured to concentrate on its core activity and experienced a different set of problems with past habits and legacies. In 1996 GKN started production on an old military site in the small town of Twardogora some thirty kilometers from Wroclaw. By 1998 production had been transferred to a new factory in Olesnica, the second largest town in the *voivodship*. The first reason for relocating to a purpose built factory was associated with the physical demands of new production methods such as just-in-time. However, it was suggested that the move was equally important to break the 'incestuous' legacy of the past as a result of producing in a small town where relationships were viewed as being too strong. This was characterised by families working in the same firm, close and closed community relationships, which were not conducive to change. Although the new relocated factory employed 80 per cent of previous employees who were bused 20 miles in three shifts, the manager reported that the physical move had succeeded in breaking some of the legacies of past relationships and networks and opened up workers to new forms of organisation and work.

5.4.6 Disembedding old legacies

An important aspect of disembedding old legacies was restructuring to increase competitiveness by concentrating on core activities, thus accelerating the process of restructuring social assets. In the past welfare functions from the cradle to the grave had often been undertaken by SOEs rather than the local or national state. In this sense SOEs were highly vertically and horizontally integrated units heavily embedded in the locality. The six brownfield privatisation companies report having sold social assets which included leisure and catering facilities and holiday homes which had been traditionally provided by SOEs. Therefore, TNCs had accelerated a process of selling or spinning off peripheral activities which had begun in the 1980s. This would appear to constitute disengagement from, rather than a continuation of past legacies. As collective welfare provision is increasingly marketised the most adversely affected group were lower paid manual workers, which explained why the maintenance of these benefits was given the highest priority by unions in negotiations with management regarding the restructuring process in recently privatised SOEs.

Greenfield developments were more easily able to introduce labour or managerial practices from the home country. Tesco for example, was representative of other incoming food retailers, in that they were in the forefront of driving new atypical patterns of work. Within months of the store opening in 1998 most full time contracts were withdrawn. Of the 600 hundred employees only a small number of middle and senior managers worked full time. The remainder of the workforce had permanent, fractional contracts, that is they were contracted to work between 50 and 75 per cent of a full time job. Workers reported working regular but varied hours over and above their contracts, but were not paid at the overtime rate, because according to the law such payments were only triggered when more than forty hours were worked. This enabled the store to cope with uneven demand while keeping costs down by not having to pay overtime.

The discussion so far has focused on examples of FDI, which have been negotiated with varying degrees of cooperation between incumbent management and Workers Councils. The next section focuses on the case study of Polar, where discussions regarding the pace and nature of privatisation and subsequent restructuring have been protracted and contested, particularly by the Solidarity trade union. First, the discussion illustrates how the changing structural embeddedness of this firm explains why foreign investment was the 'only game in town'. Secondly, the study facilitates an exploration of the deep seated and entrenched collective understandings about economic behaviour and workplace institutions that prevailed in SOEs and which were viewed by western firms as a barrier to efficient production.

5.5 THE CHANGING EMBEDDEDNESS OF SOEs: THE CASE OF POLAR

In 1990 Polar [11] was Poland's largest producer of washing machines and refrigerators. The factory occupies a large site to the North West of Wroclaw (see Figure 4.2) and in

1997 employed 5,000 workers. Polar was an archetypal SOE that owned buildings, transportation, warehousing facilities and railway sidings. In addition, in 1997 it continued to provide extensive social functions such as holiday homes, childcare, cheap summer camps for children, and a health centre with a physiotherapist and gynaecologist.

The transformation of the factory was not only economically important for the region, being a flagship enterprise and large employer, but it was also politically significant. Polar was one of the main centres for Solidarity in the region and one of the first factories on strike in 1980. Solidarity continued to have a significant presence in the factory and has been the most important influence in determining the path of transformation either by their cooperation or opposition. Further, in contrast to other large SOEs in the region based on engineering or heavy chemicals with predominantly male employees, women not only comprised nearly half of the work force (42 per cent), but they have also been a significant political force in the factory by virtue of their active and leading role in the Solidarity trade union.

5.5.1 Structural embeddedness

The new competition

In 1990 Polar went from having a captive and protected market to facing international competition from market economies as a result of trade liberalisation. There are a number of related factors that contributed to the changing nature of Polar's structural embeddedness.

First, there were a number of issues relating to European integration and conforming to European standards. Under the European Association Agreements [11] import taxes were completely removed by 1997 and customs tariffs by 1999 and this intensified competition in the Polish market. Although to date the company has complied with European standards and changed their production technologies, there are increased costs associated with current and future regulations.

Second, the demand for white goods in the domestic economy was linked to increases in GDP in real terms between 1991 and 1996 that produced strong growth in domestic demand. However, growth effects while increasing demand also affected the product life cycle forcing manufacturers, including Polar to be more innovative and replace their product line more frequently.

Third, liberalisation and market growth has led to CEE becoming a central focus for foreign investors in the manufacturing of electrical appliances. Polar's major competitors (Bosch-Siemens, Electrolux, Merloni and Whirlpool) have been active in the market either by acquiring local manufacturers or suppliers. Also more recently, Asian transnationals such as Samsung and Daewoo have appeared in the market. Apart from the high quality of goods produced by foreign manufacturers they also possessed financial economies of scale which enabled them to gain competitive advantage by offering good payment terms and conditions on consumer durables

Four, the range of Polar's production of two goods, washing machines and refrigerators, was too narrow. The importance of establishing and maintaining brand names means that the household appliance market was increasingly dominated by manufacturers who offered a wide range of products. Advertising is generic in that manufacturers promote the firm rather than individual products and attempt to gain a reputation for producing across the full range. For Polar producing only two goods was insufficient to establish a competitive brand name.

This intensification of competition was reflected in Polar's decreasing share of the Polish market in all its major products. Between 1992 and 1996 Polar's share of the domestic market for washing machines fell from 70 per cent to 30 per cent, and for refrigerators fell from 95 per cent to 57 per cent of the market. This is particularly serious given that the domestic market accounted for 90 per cent of sales of Polar's sales.

Upgrading

Between 1993 and 1995 Polar had borrowed PLN 8 million to under take a modernisation programme in order to maintain market share and to comply with regulations. Polar got rid of CFCs in refrigerators and made changes to the washing machine production line. First, this included investment in a new generation of washing machines with better technology and design. A new paint shop was installed to replace non-environmental solvents with powder paints. This expanded production capacity from 900 to 1,500 units per day. The second element of investment has financed launching a new product range of refrigerators with glass doors, and increased the capacity of the line from 300,000 to 400,000 per year (33 per cent increase). Third, there has been investment in an environmental project that involved the reconstruction of the boiler to eliminate environmentally dangerous emissions of sulphur and nitrogen.

Despite the changes that took place between 1993 and 1995 further investment was necessary to modernise products and production processes. For example, traditional materials in the manufacture of household goods were being replaced by cheaper thermoplastic elements and laminates or ceramics. This not only required changes in production technology, but also the use of plastics in production that involved economic and legal restrictions. Between 1993 and 1996 the cost of raw materials increased by 122 per cent whereas net revenue from sales increased by only 106.9 per cent. Therefore between 1994 and 1996 net operating profitability fell from 11.4 per cent to 4 per cent (Prospectus, 1996).

The investment made between 1993 and 1995 went part of the way to modernise products and processes, but only represented incremental changes in technology. Pressure from competitors and the company's development plan required more investment and expenditure in fixed assets and working capital. The company had high debt and this coupled with liquidity problems limited the amount Polar was able to borrow and the extent to which its investment plans could be carried out.

Supply chains

Supply networks changed as Polar increasingly sourced components outside the region and the country thus reducing local linkages and by 1996 total purchases from within Poland had fallen to 53.2 per cent. The reason given by both Solidarity and management for the increase in imported purchases was that domestic firms were unable to deliver in terms of quality, design, and export requirements.

Attempts to forge and maintain linkages with suppliers in the locality have not been successful. In 1994 Polar concluded an agreement with 'EDA' Poniatow Wroclaw to supply sub-assembly parts such as: compressors, electric engines and electric pumps and to carry out joint development in design and production. However, Table 5.10 shows that this firm only supplied 33 per cent of the engines while a foreign supplier providing 67 per cent, while in the case of compressors the supply was equally shared with the foreign supplier. In 1996 an agreement was reached between Polar and Hydral to deliver compressors for one year (January to December 1997). Hydral was a large SOE which undertook work for the defence industry and occupied a large site opposite Polar (see Figure 4.2). The collapse of demand in the defence industry left the firm on the point of closure. Although the supply agreement with Polar offered an opportunity for Hydral to diversify its production and become a major supplier, the contract was not extended. Hydral failed to meet the quality standards demanded by Polar and was viewed as unreliable. Ironically Polar could have sourced compressors from a firm 500 metres away but by 1996 imported over half the components from a foreign supplier.

Table 5.10 Polar's Polish and foreign suppliers of selected components in 1996

Item	Polish Supplier	% share	Foreign Supplier	% share
Compressors	Eda Poniatow, PZL Wroclaw	48	Danfoss	47
Engines	Eda Poniatow, PZL, Wroclaw	33	Michalovce Mez	67
Programming components	TERMET	73		
Sheets for runners	Walcownia Oswiecim	48	Pechiney	32
Polyol	Inter Rokita, Wroclaw	35	Elastogram BASF	65
Refridgerating thermostats	Fach Cieszyn	22	Danfoss	71
Steel sheets	Huta Sendzimira, Krakow	33	Stalexport	67

Source: Prospectus, 1996: 93

Building local linkages

Although the hierarchy of decision making in all SOEs bypassed the level of the *voivodship* in the locality, Chapter Four discussed an initiative to try and form an industrial group in Wroclaw. In the early 1990s the president of the *voivodship* attempted to set up a group comprising the four large SOEs involved in light production or engineering to form the Psie Pole industrial group, all based in the North West of the city. This group was to be comprised of Polar (white goods), Wrozamet (cookers), Hydral (military production) and Aspa (engineering) with the support of the Bank Zachodnie. The idea was to look at areas of complementarity or co-operation to ensure the survival and development of these large workplaces. This initiative produced no concrete results and now Aspa has closed and Hydral produces few goods with a greatly reduced work force. In contrast both Polar and Wrozamet have shown a greater capacity for development and upgrading. As we have seen although the potential existed to develop strong links with local suppliers the trend has been to source outside of the country. The inability of Hydral to take advantage of diversifying production and developing closer links with Polar can be regarded as a missed opportunity. Formal institutions or informal networks were not been strong enough to build local linkages and opportunities have been missed.

Therefore the changing structural embeddedness as a result of heightened competition in products, processes and quality meant that Polar lacked sufficient funds to upgrade and had to consider either a foreign investor or changing its legal status in order to be quoted on the Stock Exchange and raise finance through a share issue.

5.5.2 Institutional embeddedness

Contesting the privatisation process

Within the factory the privatisation process has been slow and contested at every stage. Between 1989 and 1996 Solidarity and the Workers Council were a major force in negotiating and shaping the restructuring process. For example, between 1989 and 1996 there were seven managing directors who were dismissed in turn by the Workers Council. It was suggested by the President of Solidarity that the sacking of managers was less to do with their incompetence and more to do with unrealistic expectations held by workers regarding what could be delivered in terms of change. While Solidarity viewed their own contribution as positive and motivated by a desire to secure the long term development of the company, the Prospectus [13] (1996) saw the situation in terms of continual management-union conflict where the Workers Council was blocking change and preventing the emergence of a clear governance structure with managerial prerogative. This view is clear in the Prospectus:

> It should be pointed out that key members of the company's management were removed from their offices several times in the 1990s resulting from recurrent conflict with the trade unions. The lack of personal continuity and the above mentioned conflict made efficient management of the company difficult and diverted attention of individual teams from issues related to the company's development. (Prospectus 1996: 38)

Privatisation per se was not opposed by Solidarity, but the particular route to be followed was disputed. The main area of contention related to the allocation of shares, because the government wanted to sell 67 per cent of shares to a foreign investor. Solidarity, however, strongly opposed any situation where there would be one (foreign) strategic investor such as Electrolux or Daewoo, both of whom had already shown an interest in the company. Solidarity's argument was that this would not be in the best long term interests of the firm and its workers, because the new investor would not be interested in developing the firm, only gaining a foothold in the market.

After much discussion and argument between management and the Workers Council, it was eventually agreed in December 1995 that Polar would be put on the Warsaw Stock Exchange and transformed by the capital privatisation route, whereby the firm would be converted to a joint stock company and shares sold. Further discussion and disagreement ensued regarding the details of the privatisation and there were two points of conflict with the national government.

First, the large number of shares that were to be retained by the State Treasury was viewed by Solidarity as leaving the back door open for a takeover by a foreign firm. As the Prospectus notes,

> In the opinion of the trade union active in the company, the number of Series A Shares retained by the Minister of the State Treasury for the purposes of future transactions gave grounds for certain fears of "hostile takeover" by an investor who could reduce the production output and the number of employees. (Prospectus 1996:38)

The different outcomes, anticipated by Solidarity, emanating from different forms of ownership suggests a textbook view of capitalism where ownership by a large number of small shareholders is both possible and preferable. This reflected a very literal understanding of the theoretical properties of the market expounded in standard economics textbooks. This is not surprising given that leading members of Solidarity had been on courses in the US where these 'enabling myths' about the attributes of market economies had been widely disseminated as self evident facts about 'how capitalism works'.

A second, contentious issue was that Solidarity and the Workers Council bargained hard for PLN 9.6 million to be set aside from earnings retained by the enterprise for the purchase of shares by workers through the establishment of a company called EKO Polar. The auditor's review of the financial statement in the Prospectus expressed grave reservations about this arrangement,

> There is a need to strengthen the equity base through the capitalizing of much higher profits generated in the previous periods and during the current period. However, the envisaged outflow of a part of the Company's equity (reserve privatisation capital) in the amount PLN 9,600,000 allocated for borrowings to the company's employees has to raise doubts of the auditors. (Prospectus 1996: 13)

Polar was floated on the Warsaw Stock Exchange in November 1997. The Polish American Fund took ownership of 35 per cent of shares, the workers had 15 per cent of the shares through a company, EKO Polar, and the State Treasury continued to hold 45 per cent of the shares. The relative share ownership is reflected in the composition of the Supervisory Board that comprises two representatives of the PAF, two workers' representatives, and four representatives from the State Treasury. The Polish-American Fund is the sixth largest investor in the Polish economy and the largest source of venture capital. This fund was set up in 1990 with USD 240 million from the US government for 'private sector support and market economy consolidation' (Business

News from Poland No. 24 [308] 1999). It is a much more covert form of foreign investment and invests in a varied range of enterprises, the aim being to precipitate restructuring and increase share prices. In doing this the US is able to both accelerate the transformation process and push it towards the market model at the same time as receiving a commercial rate of return on money invested.

It was only after the flotation on the Warsaw Stock Exchange in 1997 that management was able to exercise a stronger hand as the Workers Council was dissolved or at least stripped of its formal powers. The expectation of worker participation by Solidarity in terms of communication and consultation has remained strong, and in 1999 the social assets were still retained despite the expressed intention of senior management that these should be sold off. Here the role of individual human agency is important, because in other workplaces Solidarity has played a much more passive and acquiescent role.

Institutions of 'no redundancy' and social provision contested

Between 1996 and 1998 the workforce in Polar had been reduced from 5,500 to 4,800 and this was achieved through natural wastage and voluntary redundancy and was not opposed by the union. In May 1998, following the November 1997 privatisation, McKinsey consultants were engaged to report on the state of the company and review its operations. Acting on the recommendations of the McKinsey report Polar's management announced a further 910 redundancies in October 1998. Five hundred further workers took voluntary redundancy, which left a decrease of 410 to be effected by compulsory redundancy. Jobs for life were a significant part of the collective understanding about work that persisted from the previous regime, and redundancy was unthinkable. Solidarity refused to accept these recommendations and hired a firm of Polish consultants from Poznan (no firms in Wroclaw were willing to take on the job) to scrutinise the case put by management. In light of the counter report produced for Solidarity, which suggested that the McKinsey figures were superficial and the financial argument unconvincing, management withdrew the 410 redundancies.

Table 5.11 gives the age and gender composition of employment and suggests why redundancy was so strongly contested.

Table 5.11 Employment structure by age and gender of workers at Polar in 1996

Age group	Women	Men	Total
Under 20	7	71	78
21 to 30	326	986	1312
31 to 40	671	844	1515
41 to 50	993	1059	2052
50 to 60	189	295	484
61 to 65	1	18	19
Total	2187	3273	5460

Source: Prospectus, 1996: 96

The age structure of the workforce is skewed towards the older end with the largest number of workers in the 41 to 50 age group. With a basic education and experience in production rather than clerical work, this group face much greater difficulty in finding new employment than younger people or white collar workers.

Attempts to reduce social provision were another source of conflict between the management and union. In 1998 management's proposal to divest the health clinic was strongly opposed by Solidarity. They argued that the physical nature of the job meant that these services were constantly in demand from the workforce, and particularly women workers. Further, they argued that eliminating this facility on site would cost the company more than it would save them, either in days off sick or hours lost due to visiting health clinics off the premises. The low wages of workers in the factory and an underfunded and deteriorating state health service, meant that the retention of on-site medical facilities was considered a huge benefit for workers.

Despite the declared intention of selling off holiday homes by the Personnel Manager, in 1998 they still remained part of the social assets. According to Solidarity the holiday homes were well used with an average of 1300 children per year using the facilities. Workers paid 25 per cent of the cost and if they did not use the facilities and took a "holiday under the pear tree", that is stayed at home on the *dzkiala* (allotment) workers were entitled to a bonus of 600 zloty (approximately £140).

In 2000 Polar was a hybrid company with ownership in the hands of private investors, the state and workers. Unlike most Polish SOEs it also still retained a significant level of social provision. However, this may be a transitional stage and it is likely that the pressures of competition will push the form of ownership and organisation to converge with the organisational structures dominant in companies in Western Europe. By 2001 negotiations were underway whereby the State Treasury and the Polish American Fund were considering selling shares to a French TNC producer of consumer durables.

5.6 CONCLUSION

Structural embeddedness and in particular exogenous pressures and the nature of competition in the sector faced by firms were important in influencing the degree of permanence of employment in the locality. In 1998 Cadburys, Cargill and Cussons all had a significant market share in Poland and produced in sectors where competition was on the basis of marketing and product differentiation rather than the technological content of the process or the product. These firms would seem to have a fairly stable future in the locality, particularly as they have consolidated their positions either in the country or the region. Cadbury used their market experience to buy Wedel, the most prestigious Polish chocolate company, from Pepsico in 1998. Knowledge of the market meant that taking over an existing production facility was less risky than when they entered the market in 1994. Cussons undertook a further round of investment in 1998 and built a brand new state of the art factory in Wroclaw to consolidate its strong position in the Polish market.

In contrast Volvo was operating in a highly competitive market characterised by increasing concentration in the vehicle sector as firms attempted to gain economies of scale through mergers and acquisitions. The Wroclaw assembly facility could have gained or lost from this period of restructuring, but Wroclaw emerged as the winner when all European bus production was moved to the site and in this zero sum game four factories closed elsewhere in Europe.

ABB Dolmel (power generators), ABB Dolmel (Drives) and Pafawag/Adtranz (50 per cent owned by ABB) exhibited the most volatility. All these firms faced saturated markets in mature home market economies and transformation opened up a whole new range of assets and markets in the transforming economies of CEE and Russia. Between 1990 and 1999 ABB adopted a policy of 'buy now rationalise later'. As we shall discuss in more detail in the next chapter ABB Dolmel (Drives) was closed by 1999, and the 50 per cent stake in Pafawag/Adtranz was sold in 1998. In April 1999 ABB Dolmel (power generators) sold 50 per cent of shares to Alstom as part of a joint venture agreement and the remaining 50 per cent in April 2000, as it shed its 'old economy businesses' (power generators, railway equipment) in favour of newer technology related businesses. The FT 1 April 2000 suggested:

> It is hardly the greatest advert for mergers. Little more than a year after announcing a deal to combine their operations on power generation equipment, Alstom and ABB, two of the world's giants in electrical engineering agreed to go their own separate ways.

The new structural conditions which Polar faced after 1990, in terms of intensified competition, meant that its future was more precarious. Given the necessity of raising finance to update products and processes and the failure of local initiatives to cooperate, foreign investment was the only option. However, on the basis of the pattern of restructuring apparent in other case study foreign investments the following outcomes are highly probable: job reduction would be contested but not resisted indefinitely, social provision would be reduced as the firm concentrated on its core activities and supply chains would be increasingly internationalised. In this case foreign investment elsewhere in Poland would reduce the economic and political linkages of Polar in the regional economy.

In terms of the economic linkages of FDI firms in general, the research is in line with surveys reviewed by Young, Hood and Peters (1996). These report a reasonable degree of similarity in the impact of FDI on locality, namely that the direct effects on the firm itself have been positive, with improved availability of funds, improved financial techniques, technical help and marketing skills which tended on balance to be favourable to the acquired companies. On the other hand the spillover effects, especially with respect to local sourcing were disappointing. However, while local sourcing for primary inputs (except in the case of Volvo) has been very small, the presence of firms has stimulated the development of indigenous provision and foreign investment in a whole range of related services and fundamentally altered the infrastructure of business services in the municipality.

Firms have displayed different levels of engagement with local formal institutions. Brownfield investments as part of the privatisation process were negotiated at national or workplace level, and bypassed the *voivodship* with decisions taken with little or no consideration for locality. Greenfield investments were motivated by a desire to avoid formal institutions in the locality and the workplace, with entry strategies focusing in some cases, on agents of change at a sub-regional level. Firms were able to glean and gather information through the informal networks of transnational managers and lobby through their own institutions such as the chambers of commerce. Thus TNCs pooled tacit knowledge and learning about local informal institutions to aid the entry and operation of foreign investors, and this became part of the intellectual capital of the individual firm or collective knowledge of the foreign business community.

Therefore by extricating themselves from or locating themselves outside old institutional and economic networks, both greenfield and brownfield, foreign investors were in the process of forging new links. A relationship between the subsidiary and the parent company was carefully and deliberately cultivated and nurtured. Although firms exhibited different patterns of internationalisation and pursued such strategies over different time scales, there were tried and tested methods for locking subsidiaries into their global networks. An emphasis on reviewing supply chains and distribution, and changing work processes were aimed at getting firms up to speed in terms of time reduction and cost efficiency. Restructuring the labour force has involved a reorientatation of personnel on market research, sales and marketing in order to develop the necessary tools for engaging in oligopolistic competition. Further, the development of networks and linkages between incoming firms and local suppliers was undermined, to some extent at least, by the collaboration between large foreign firms both as final producers and suppliers. The demands of quality and scale of investment required may leave indigenous firms on the margins and in the interstices.

Overall the findings of the case studies were that the economic linkages have been modest, and the most marked effect was the behaviour of firms as reflexive and political actors in acquiring assets and 'bending' the behaviour of economic agents both inside and outside the workplace. Rather than informal institutions and conventions being an important asset and source of competition for incoming firms, as some accounts suggest, the field work suggested that firms' strategies focused heavily on marginalising or changing informal institutions. In particular, incoming firms tried to alter management and work practices and instill new behaviours and expectations consistent with Western business practice. The process of 'bending' or eviscerating institutions and the introduction of new collective understandings is explored in greater depth in the next chapter by drawing on the notions of cultural and cognitive embeddedness.

ENDNOTES

1 There was no consistent measure of the value of foreign investment by *voivodship*. The only rough estimations for FDI come from PAIZ (Panstowa Agencja Inwestycji Zagranicznych [Polish Agency for Foreign Investment]) bi-annual reports. It provides an aggregate picture only and its breakdown into *voivodships* is not possible since it shows total value of particular investors based on the location of the enterprise headquarters and ignores many large investors. The conclusion according to Dr Bolek Domanski (Jagiellonian Univeristy, Krakow) the leading Polish expert on FDI, is that accurate figures can only be derived from detailed research.

2 Each enterprise had designated a lead NIF. Each of the 15 NIFs was a consortium owned by foreign and Polish banks and consultants with a contract for restructuring their bundle of about 28 firms. The shares of firms in the Mass Privatisation Programme was as follows: lead NIF (33 per cent), state (25 per cent), workers (15 per cent), other 13 NIFc collectively (27 per cent).

3 For a critique of the NIDL see Schoenberger (1988) and Henderson (1989). Low wage costs are not synonymous with low costs. Low productivity due to poor technology or inefficient work organisation or high inflation, may negate or offset low wages. Exchange rates are also an important influence of relative costs in international trade.

4 In 1994 Poland was rated 41st (bottom of the table) by the *The International Competitiveness Report* prepared for the International Institute for Management Development in Lausanne (Privatisation News, November 1994, p.4).

5 Oligopolistic competition is defined as industries and sectors dominated by a few firms where there is a significant degree of interdependence and where strategy is a mixture of collusion and competition.

6 There was a high degree of rivalry in acquiring Polish confectionery firms. For example, Nestle won control of Poland's second largest chocolate factory, by 'snatching' Goplana away from an Israeli food processing firm who were about to sign a contract. Nestle used local radio and representatives with leaflets and megaphones at the factory gate to advertise their package to the workers.

7 Import led growth was a strategy used in the 1970s to attempt to break out of economic stagnation by borrowing money from Western banks to buy licenses and technology from the West to update production.

8 PHARE (Pologne/Hongrie: Assistance a la Restructation Economique) was the support effort of 24 Western countries (G24) coordinated by the EC. Assistance fell into five categories: food supplies; investment and joint ventures; environmental cooperation; and access to western markets (Mihalyi and Smolik, 1991).

9 Interviews were carried out with women workers in Tesco and Polar. This formed part of the research into the changing work of women in Poland carried out with Dr. Alison Stenning from the University of Birmingham and funded by a NuffieldGrant of £5000.

10 The presence of large foreign food retailers was controversial on two counts. First, their impact on small shopkeepers had led to sporadic strikes in the Katowice region in 2000. Second, in 2001 several newspapers had carried articles which were highly critical of the wages and working conditions in supermarkets who were seen as evading labour laws.

11 In 1952 the Zakrow Metal Works was established on the basis of the Ordnance of the Machine Industry Minister and started production in January 1953. At first production included a variety of disparate products such as cardboard boxes, quilts, metal objects, spare parts for farm machines, mail trolleys, gas water heaters and motorised bicycles. In 1957, the Works started the production of absorption refridgerators and in 1963 the production of compression refridgerators began. In 1966 the Zakrow Metal Works changed their name to Polar Metal Works. Polar started the production of automatic washing machines in co-operation with a Yugoslavian firm TGO Gorenje in 1971. In 1976 it expanded production under licence from a German company Blomberg, and as a result the next few years saw the modernisation of the enterprise and the introduction of new products.

12 The Association Agreements (1992) were given a high profile in terms of claims to liberalise trade between PIT (partners in transition) countries and the EU. In reality it opened up CEE markets for EU firms while restricting the export of goods in which Poland had comparative advantage (Messerlin, 1992).

13 The prospectus issued in December 1996 by a consortium of financial organisations in preparation for the company being floated on the Warsaw Stock Exchange November1997, provides a succinct account of the problems facing the company and the new competition in which it must operate.

CHAPTER SIX

COGNITIVE AND CULTURAL INFLUENCES ON THE EMBEDDEDNESS OF FOREIGN INVESTMENT IN WROCLAW: A TALE OF TWO FIRMS

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6.1 INTRODUCTION

The previous chapter argued that the most important impact of incoming foreign investors was their capacity for instilling new collective understandings about economic behaviour, both in the locality as a whole, and in individual workplaces. In order to give a richer understanding of this process of 'institution bending' the focus of this chapter is on the cultural and cognitive influences on the embeddedness of firms. Cultural embeddedness is defined as the behavioural norms and rules of the game that comprise the corporate culture of a firm and which influences the way in which organisations enter new settings. As firms cross national boundaries and in the context of an intensification of competition, they need to introduce and establish new material and discursive practices in the workplace. Cognitive processes in the firm focus specifically on how firms encourage appropriate learning through restructuring management practices and the labour process in order to change the behaviour and understandings of workers. Radical institutionalism, however, problematises the establishment of hegemony when organisations are complex and contested and the environment uncertain as firms operate in new circumstances. In particular, the problem is how firms negotiate with or around existing established collective understandings.

Cultural and cognitive influences on embeddedness are explored through an in-depth examination of two case study firms, Volvo and ABB, which are both significant investors in the Wroclaw region. Volvo has developed from an assembly operation to becoming a European industrial centre for bus production, while ABB has invested in five firms in the region. The firms have been selected because they provide contrasting examples of corporate culture and cognitive practices which are manifest in their entry strategies, methods of restructuring and dealing with entrenched inherited behaviours. The second part of the chapter explores the implications of these different cultures for their embeddedness in the locality in terms of their impact on technology, the labour market, suppliers and the effect on indigenous firms. The chapter begins by examining structural embeddedness of the two firms to set the context of the case studies.

6.2 STRUCTURAL EMBEDDEDNESS: BACKGROUND TO CASE STUDY FIRMS

6.2.1 Reasons for entry and the nature of competition

The first firm, ABB, is a multinational corporation headquartered in Zurich formed in August 1987 by a merger between the Swedish ASEA, flagship of Swedish industry since 1890, and Swiss Brown Boverei (1891) which held a comparable industrial status in Switzerland. Both were already middle level players in the international electrotechnical or electronic engineering industry. The new corporation subsequently grew rapidly through a series of acquisitions and by 1996 the ABB group had an annual revenue of over 35 billion USD and nearly 215,000 employees worldwide (Financial Times, 12 June 1997). This firm has been a central player in the restructuring of the power production and servicing sector in CEE, where it has had some presence in the two decades prior to transformation through licensing agreements. In Poland ABB ranked as the twentieth largest investor in 1999 and has made significant investments in the Wroclaw region.

The second firm, Volvo, shares the same country of origin as ABB and is a world leader in the production of heavy goods vehicles and buses and employs 75,000 people worldwide. It is currently the largest industrial enterprise in Scandinavia with sales exceeding 26 billion USD in 1998. Although its development is directed towards developed markets, it has intensified activities on the markets of Asia, CEE and Latin America. Volvo invested in the Wroclaw region in 1993 and we trace its rapid development from a joint venture to greenfield production and then from assembly to being the European industrial centre for bus production.

Volvo started research into CEE in 1990 with a view to starting production either in Hungary, the Czech Republic or Poland. The initial motive for entry was market access in that Poland was a large market but had excise duties on trucks which ranged between 35 and 40 per cent, which made sales from outside the country uncompetitive. The strategy was to gain market access to Poland with the assembly production of trucks and buses, while keeping the high skill and value added production of cabs and engines in Sweden. After testing the water for production conditions in Poland in general through assembly production, and Wroclaw in particular, full production was considered, along with the possibility of component production for Volvo's global industrial system. Although initial production was for the Polish market, the intention was to use Poland as a platform for exporting to other parts of CEE and Russia, before setting up production in those economies as part of a longer term strategy.

After discussions with the national government a joint venture between Volvo and Jelcz, the leading Polish bus and truck producer, was agreed and assembly production began in 1993. However, the joint venture with Jelcz, situated in Jelcz Laskowie (see Figure 4.1), twenty kilometres from Wroclaw city, only lasted for one year, because of a failure to agree on employment levels. Subsequently Volvo started production on a greenfield site on the edge of Wroclaw city. There were several reasons given by senior management for remaining in the Wroclaw region rather than relocating elsewhere in Poland: first, components came from Gothenburg and Ghent which meant that an area in the west of Poland was well positioned in terms of transport; second, because of the industrial atmosphere that included a strong engineering tradition and good standard of education; third, Volvo had already trained 160 people at Jelcz whom they had leased and wanted to bring to the new greenfield site; fourth, and less important was that Wroclaw was less expensive than Warsaw where salaries were high and construction work expensive.

Between 1995 and 1998 Volvo invested 20 million USD in developing bus and truck assembly on the new greenfield site. In June 1998 Volvo's head office in Sweden took a major policy decision and designated Wroclaw the centre of Volvo bus production in Europe to produce for the Polish market, as well as markets in Central, Eastern and Southern Europe. By mid-1999 a new factory to build complete buses had been constructed on 40 000 square metres of land. The additional investment amounted to 50 million USD and produced 1500 new jobs by 2001. Additional employment was created not only in production, but also logistics and data processing. Table 6.1 shows the planned and actual increases in production between 1995 and 2001

Table 6.1 Technical capacity and production volumes of trucks and buses at Volvo, Wroclaw

	Truck production		Bus production	
	Technical capacity	Production volumes	Technical capacity	Production volumes
1995	950	498		
1996	1380	935		
1997	1600	1285	110	21
1998	2000	1735	220	115
1999	2400		380	159
2001	2400		1100*	

* Also 1400 chassis

Source: Volvo, 1999

The decision to relocate bus production to Poland was related to changes in the market that had undergone a wave of concentration. By 1992 the number of bus producers was one third of the number there had been in 1962 and between 1992 and 1998 that number had fallen by a further 40 per cent. In 1998 bus production by Volvo was spread across five factories (Scotland, Austria, Germany, Belgium and Poland) and this was regarded as too fragmented and costly. Therefore senior management in Sweden decided that a rationalisation of production was necessary to achieve economies of scale in terms of logistics, supply distribution, the use high tech equipment and financial and support services.

In the case of ABB pressures in the power generation market and the need to internationalise came from both push factors in the domestic market and pull factors in international markets. The market for power transformers had matured, limiting demand in established markets while the need to modernise obsolete equipment through privatisation had created a high level of demand in emerging economies. Thus the transformation of former SOEs and the deregulation of monopoly product markets had opened up new markets and intensified competition between big players. The high level of investment by ABB in Poland was driven by both market access and the need to lower costs. Due to a presence in the 1970s through licensing agreements, ABB was able to gain first mover advantage in CEE and Percy Barnevik (President of ABB) starting negotiating with the Polish government about further investment in 1988, completing the first acquisition in 1990.

ABB's presence in Poland and other emerging markets was also motivated by the necessity of securing lower cost sources for components such as turbines and switchgear which were 40 per cent cheaper to produce in Poland than in western Europe. Between 1990 and 1996 over 54,000 jobs were eliminated in ABB in the US and Western Europe as 46,000 new jobs were added in the Far East and CEE through the acquisition process (Financial Times, 9 June 1997). ABB is the single largest investor in the former CEE and Russia. Percy Barnevik, the then President, made his motive explicit:

> We must stop looking at eastern Europe as a potential burden, as a risk area which dumps products on us. They have a gigantic market where whole industries need to be rebuilt. I truly believe we are in a 'win-win' situation. (Obloj and Thomas, 1998: 391)

Within Poland ABB has made a large number of investments in the Wroclaw region which are shown in Table 6.2.

Table 6.2 ABB investments in the Wroclaw *voivodship* from 1990 to 1997

Subsidiary	Activity	Employment in 1998	Employment in 2000 (projected)
ABB Dolmel *	Power generators	600	600
ABB Dolmel Drives*	Engines for industry	450	0
ABB Instal	Switchgears and electrical installation	200	200
ABB Centrum	Engineering components for power plants	70	70
Donako*	Metal stamping	300	300
Adtranz (ABB & Daimler Benz)	Locomotive shell manufacture	1200	400

* Previously one former State Owned Enterprise, Dolmel

Source: Author

6.3 CULTURAL EMBEDDEDNESS

This section examines the way in which the corporate culture of the firm has influenced the entry strategy and restructuring of the two case study firms.

6.3.1 Internationalisation and mode of entry

ABB Dolmel (power transformers), ABB Dolmel Drives, ABB Donako and Adtranz occupied adjacent sites on an industrial area on the edge of Wroclaw (see Figure 4.2). The previous SOE, Dolmel (power generators) was one of the two largest acquisitions by ABB in Wroclaw. The Dolmel SOE had started production under licence from Russia in 1947 and in the 1970s, as part of a strategy of import led growth, imported western technology under licence from the UK, Germany and Switzerland.

When ABB purchased Dolmel it was one of the largest firms making power generators in the Soviet bloc. Negotiations took place between ABB Power Ventures and the Polish government with ABB purchasing 100 per cent of the shares. The purchase of the company was controversial because, according to Solidarity, ABB used cherrypicking tactics. The former SOE was split into three parts; Dolmel (core area of generator production), Dolmel Drives (engine production) and Dozemal which owned the land, buildings and social assets.

ABB bought Dolmel (power generators) and Dolmel Drives while Dozemal remained as a State Owned Enterprise which leased the land and buildings to ABB. This was entirely consistent with entry tactics used by ABB in other parts of Poland and CEE, which was to negotiate in advance precisely how much of the business it wanted to take on and cede control of the rest to the state. In some acquisitions in Poland workers were picked by individual interview. As one ABB Executive put it, "…….we don't want the lazy ones, or the ones who are set in their ways. We leave them to the State" (Financial Times, 16 April 1993:17). Financial risks were controlled by buying into existing capacity which kept costs low and it was rare to spend more than 20 million USD on an acquisition (Financial Times, 10 March 1996) and sometimes this took the form of in-kind payments such as technology transfer. The Financial Manager at Dolmel suggested that entry by the brownfield privatisation route meant that capital was not tied up with land and buildings.

The entry strategies and subsequent development of these two firms had implications for their embeddedness in the regional economy. In the case of Volvo, the decision to reject a joint venture and opt for greenfield production was to avoid old institutional legacies and start with a clean sheet on which it could imprint the corporate culture of the firm. However, as we saw earlier, the pressure of international competition driving rationalisation rapidly led to changes in the Volvo industrial system with the subsequent designation of Wroclaw as an industrial centre, that would substantially increase the potential for local embeddedness. Factors related to geography and favourable production conditions meant that between 1995 and 1999 the Wroclaw site changed from a truncated assembly site to an industrial centre with substantial additional investment to produce for the European market. As we will see in the following sections this was associated with decisions related to sourcing and relationships with local institutions which would embed Volvo in the local economy at a number of different levels. In contrast ABB's mode of entry through the privatisation process enabled the firm to get access to skilled labour and embedded technological expertise while avoiding the costs associated with search, greenfield development and ownership of land and buildings. Leasing rather owning assets meant that it was much more footloose and could operate on shorter time horizons if it wanted to sell or switch production which meant that it had shallow roots in the locality.

6.3.2 Restructuring and agents of change

The two firms had different ways of dealing with the deep rooted nature of rigidities in former SOEs which were characterised by centrally allocated vendors and buyers, enduring functional structures, domination by technocratic and engineering elites and strong inertia with little impetus for or tolerance of change and uncertainty.

Part of Volvo's decision to discontinue the joint venture and start greenfield production was motivated by a wish to circumvent existing institutions. The Managing Director of Volvo explained,

> In June 1994 negotiations [with Jelcz] were falling to pieces and we decided to go for our own site, my task was to find a greenfield location............The problem was that they had a lot of people, 3,500 at that time and one of the remarks from the authorities was that we should take on all of them. We said we can only take 2,000 and that is all. Then Mercedes came on the picture and promised to take care of all of them. It was one of the best decisions we ever made. (Managing Director of Volvo)

This view was echoed by other members of senior management,

> Greenfield gives much more control of the business........we can run the business the way we want. I can't think of any successful joint ventures, especially big ones, may-be smaller ones. You just inherit a bag of problems with a joint venture. (Finance Director Volvo)

Volvo's corporate culture conformed much more closely to Hedlund's (1991) view of 'heterarchical' Swedish firms which relied much less on hierarchical authority, formal measurement and explicit internal markets. Rather Volvo relied on socialisation, rotation of managers and the emergence of shared views of the company's strategy and identity. Whereas ABB's managers were generally older and inherited from the previous company Volvo tended to recruit young Polish managers. There was a significant number of Swedish managers in Volvo still in post 1999 which included: the Managing Director, Finance Manager and Global Sourcing Manager. While the ultimate goal was to imbue middle and senior managers with the 'Volvo way of thinking', the route taken was very different from that of ABB. There was much less evidence of the right way of doing things codified in manuals or procedures, particularly regarding HRM and supply management. The style was much less hierarchical and appeared, on the surface at least, to be much more flexible. Proximity, personal contact, coaching and a very hands on approach on the part of the Swedish management were seen as preferable to formal training. The decisions of Headquarters were mediated by the Managing Director and the presence of Swedish managers in key positions such as sourcing and finance served to drip feed and reinforce company culture.

If Volvo took a gradualist and pragmatic route to restructuring the ABB approach to the transformation of management culture was much more akin to 'shock therapy'. ABB had given priority to creating a core group of global managers who were cultivated by rotating people round the world to give them line experience in three or four different countries to create a global perspective and to make sure that their loyalty was to the company rather individual countries or subsidiaries. According to the then CEO Percy Barnevik these global managers were required not only to understand the local culture but also, "to sort through the cultural debris of excuses and find opportunities to innovate" (Taylor, 1991: 481). Therefore shock troops comprising ABB global managers and consultants were sent in to administer a short sharp shock and effect rapid change in the structure and culture of the organisation.

> ABB corporate-approved solutions were transferred and forcibly implemented into Polish firms, immediately replacing the former well-established routines, recipes, procedures and structures of the centrally planned economy..........They did not initially perform any sophisticated diagnosis or analysis of local conditions or develop a strategic vision for the transformation process. Rather they forcefully implemented market enterprise discipline in the acquired former state-owned forms

by a series of high speed actions. (Obloj & Thomas, 1998: 392)

One of the main tasks was to create a small group of Polish managers who could be left to run the firm once the 'agents of change' had moved on elsewhere. Previous management in SOEs were representatives of the Communist Party and powerful administrators. However, an unusual balance of power prevailed with top managers earning only as much or even less than the best performing workers. The process of creating new managers or remoulding existing managers took place by increasing material rewards and promoting the enabling myths of the company. First, as with other ABB acquisitions in CEE this included extensive training sessions to identify and select managers from the previous SOE who were most likely to adapt and change. These individuals were then put through intensive education and training to expose them to the principles and practice of the market economy in general and ABB management systems in particular. Rather than using local providers, the training and development of this layer of managers generally took place at the ABB Management Centre in Warsaw. This group of selected Polish managers were sent on benchmarking tours to other firms in the ABB Business Area to understand best practice and become imbued with company culture. This was an ongoing process reinforced by biannual meetings of middle management functional teams within the Business Area. Second, the material incentives and prestige of managers were substantially increased with large wage increases, company cars, remodelled offices and the possibility of foreign travel.

This intense restructuring took place in the four year period from 1990 to 1994 after which ABB Dolmel (power generators) had all Polish management, the consultants having moved on and the expatriate managers transferred elsewhere. Constant financial reporting and manuals supplied to the HRM and supply managers regarding ABB policy, meant that there was strict arms length control with little room for manoeuvre for incumbent managers. The ABB Business Area decided which market the firm could sell in, the level of investment and R&D continued to take place in Switzerland. The main area for which the factory workers and managers had responsibility was cost reduction and productivity, although targets for these parameters were handed down from the Business Area.

As we shall see in the following sections the different approaches to organisational structure and differences in corporate culture were played out in and permeated all other aspects of their operations in HRM, production philosophy and supply management.

6.3.3 Country of origin and national systems of business

Both of the firms originated from the same country of origin, but as we have seen manifested contrasting corporate cultures. Volvo exhibited strong but not unmodified cultural traits from the home country such as the inclusion of employees, more heterarchical structures and the stated aim of being a good corporate neighbour. They were positive about building links with the locality beyond those that served their immediate needs. ABB was half Swedish in that it had merged with a Swiss company in 1987. There were no discernible traces of the Swedish model, and the corporate culture reflected the personal stamp of senior executives.

6.4 COGNITIVE EMBEDDEDNESS

As we saw in earlier sections Volvo and ABB adopted different policies to deal with the norms, habits and past behaviours of workers and incumbent management. While ABB used a 'shock therapy' approach to restructuring and corporate strategy, Volvo's more gradualist approach was based on drawing on local tacit knowledge.

6.4.1 Regions as a source of tacit knowledge

Both of the case study firms accessed local tacit knowledge in different ways through their human resources managers, networks of other firms and their participation in local chambers of commerce and the business community.

The role of the respective HRM Managers reflected a different emphasis on the importance of local tacit knowledge. In Volvo the HRM manager, a woman in her late twenties previously the personal assistant of the Managing Director, was a member of two local HR groups which met frequently. One was the regional branch of the Polish HR Association that met monthly and the second meeting comprised Polish and international managers (mainly HRM) and was organised by a local consultancy firm. These groups drew their membership mainly from large companies and provided a forum for exchanging local knowledge about recruitment and trade unions. The HR Manager at Volvo explained why practices had been locally adapted.

> HRM is a very local thing. Knowing the culture, the traditions, the education system, the history of the region, the mentality of the people, religious background. These are things that cannot be learned abroad. (HR Manager Volvo)

The gradual development of the Volvo site meant that many of the policies were pragmatic and had developed in response to new situations. In contrast the HRM Manager at ABB Dolmel was in her fifties and had worked for the company for twenty five years. Her main contact with other HR managers was within the ABB organisation itself, cultivated through frequent training courses and meetings in Warsaw and elsewhere in Europe. The HRM manager at ABB Dolmel was much more a conveyor belt for implementing ABB policy, which was extensively codified in a series of very detailed manuals and mechanically implemented rather than locally adapted.

The previous chapter emphasised the importance of networks of large firms as a source of local knowledge. Volvo had strong and frequent contacts with other foreign investors. When they were considering greenfield production in the area they talked to Cadbury, the first large FDI in the area, to facilitate and accelerate the process of relocation. They were given practical details about how Cadbury had built their factory, which consultants they had used, the main bureaucratic hurdles encountered and who could get things moving in the city and at *voivodship* level. In turn when the site was completed Volvo became a source of information for other investors considering locating in the area and enquiries were put in their direction by the British Chamber of Commerce. There was frequent contact between Volvo and other Swedish investors such as ABB and Alfa Lavel with whom they have sponsored a children's home and financed and promoted annual Swedish culture days. The Managing Director attended regular private dinners at the International Club reserved for the highest echelons of management from the leading foreign investments.

ABB's roots in the locality, in contrast, were shallow and token. Membership of the Lower Silesian Chamber of Commerce and the British Chamber of Commerce did not translate into active participation in the business life of the locality. The mode of entry through buying into an existing factory that was negotiated at the national level circumvented local structures. The Polish management of the company, largely recruited from the previous SOE, was not locked into the formal or informal structures or networks of international management in the locality. The only long standing and substantial contact was with one department in the Technical University of Wroclaw. There was no suggestion that a high profile in the area, or a positive image or reputation as a good corporate neighbour was an important aspect of their corporate culture.

One salient aspect of the debate on local embeddedness is the extent to which regional linkages with formal institutions have become increasingly important for firms, or whether the critical spatial level of engagement continues to be at the national level. Although the role of the head office played a different function in each of the firms, the existence of a headquarters in Warsaw reflected the fact that both firms needed to have a base near the decision making centre and the potential for political links with relevant Ministers and government departments.

In the case of Volvo the Warsaw office housed the Managing Director of Volvo Poland, the sales and after sales organisations, and the statutory finance function that consolidated information from regional operations for the head office in Sweden. A presence in Warsaw was important for lobbying the government regarding the rules pertaining to foreign investment. In the mid 1990s, for example, there was ongoing concern about the classification of industrial assembly, with rules under discussion on exemption from customs duties. These rules related to the number of people employed the value of investment and production levels. Pressure to tighten rules on foreign assembly investment came from domestic producers such as Jelcz who demanded a degree of protection from competition and from other large foreign investors such as Daewoo who had committed large sums of money. Further, there was antipathy to foreign investors from individual politicians. While there was no fundamental difference in the policies of the two major parties (AWS and SDP) the main division was within the parties, for example, the Peasant Party which was part of the AWS coalition was hostile to and suspicious of foreign investors and raised objections to them buying land.

A second reason for Volvo needing a high and positive profile in the country and being regarded as good corporate neighbour lay in the demands of the new competition. In the sale of buses purchased by municipalities and city councils Volvo had extended the package that they offered beyond the provision of finance. From 1998 onwards they offered a wider service relating to transportation and planning, where they provided an overview of the transport needs of a locality and worked with local officials and planners to make adjustments and improvements. In 1999 this strategy had not yet been adopted by other bus makers because it required a high level of resources and finance which were beyond the resources of weaker competitors in the market.

In the case of ABB a presence in the national economy was formalised in their matrix structure. This matrix system meant that senior management in each subsidiary were answerable to a country manager usually based in the capital city, and Business Area managers based outside the country. The purpose of a country headquarters was intended to ensure not only access to decision makers but to disseminate information regarding national issues, particularly when in the case of CEE, there are a large number of firms and profit centres operating within each economy. Therefore, when there was a new ABB acquisition managers could benefit from local knowledge embedded in other companies in the group operating in the same country. Important information would include where to recruit, links with universities, building an efficient distribution and service network across product lines, circulating managers among local companies and maintaining good relations with top government officials. Therefore, ABB needed a base inside the country in order to gain local knowledge and a national focal point for collecting tacit knowledge and codifying it for existing and new operations. An understanding of labour relations, banking systems and the establishment of high level contacts with customers were crucial to the operation of the business. Further, acquiring firms which were industry leaders and country monuments required a degree of local sensitivity in both their acquisition and restructuring.

6.4.2 Hierarchy to heterarchy

Chapter Four suggested that the move to flatter organisations was an important way of accessing tacit knowledge from employees and encouraging innovation. Since its formation, ABB has espoused a corporate strategy of being local world wide – 'a company with many homes'. In the previous section we saw how ABB's organisational structure was designed to exploit the two-fold advantage of local specialisation, on the one hand and, global resources and coordination on the other. Its' global mantra has been *think global act local* (Taylor, 1991: 477).

ABB's operation in the Wroclaw region reflected the way in which most of the company's employees were organised in autonomous small units. Operations in the organisation as a whole were divided into nearly 1,200 companies with an average of 222 employees, and these companies were further divided into 4,500 profit centres with an average of 50 employees. Barnevik claimed that 'Separate companies allow you to create balance sheets with real responsibility for cash flow and dividends. Better for rewarding, motivating and recruiting managers' (Taylor, 1991: 486). Centralised reporting took place through a Management Information System called Abacus, which collected performance data on 4,500 profit centres and compares performance and budget forecasts every month. This information was collected in local currencies and then translated into US dollars for comparability. The performance indicators were cash flows, invoicing, new orders, profit margins, and their purpose was to discern patterns and to track how far individual subsidiaries were out of line with general trends in efficiency.

ABB Dolmel was described by the Managing Director as both super local and super global. Super local in that it specifically served the local market in Poland for new generators and the equipment for and servicing of existing ones. The second business area was in power plant production which was part of a world wide network of generator factories which both competed and cooperated with other ABB subsidiaries for contracts and was therefore super global.

The matrix system meant that the senior management of ABB Dolmel (power generators) was answerable to one country manager in Warsaw and two Business Area Managers. The Business Area Manager for Power Utilities was based in Germany, while the Business Area Manager for Power Production was based in Switzerland. The Business Area Manager's role was to monitor the trajectory of the business. S/he decides which factories will make which products, what export markets each factory will serve, how factories should pool their expertise and research for the benefit of the company worldwide. In addition, s/he tracks the talent of 60 or 70 outstanding managers and recommends them for new companies.

The organisational structure of Volvo was more flexible and multidimensional in comparison with the formal and rigid matrix organisation of ABB and HQ functions were comparatively more diffuse. Volvo Management on the Wroclaw site, as we shall see in the next section, had a greater degree of autonomy regarding the organisation of production, HRM policies and sourcing decisions. The plant was only responsible for production, with sales and marketing taking place elsewhere. Decisions regarding new investment, and the expansion or closure of the plant were taken in Sweden. Unobtrusive control was in evidence with the constant monitoring and measurement of quality according to criteria that were established to every last detail in Goteborg. As we shall see when we look at the labour process, the philosophy of the company was that the best way of fulfilling these externally determined criteria was to mobilise the tacit knowledge of workers rather than the prescriptive and restrictive approach of ABB.

6.4.3 Learning by coercion

Although structures appeared to be flat and autonomous in ABB this masked the way in which the structure coerced the individual divisions to learn in particular ways. Every month the Business Area headquarters distributed detailed information on performance measured by crucial parameters, such as failure rates, throughput times, and inventories as a percentage of revenues. These reports generated competition for outstanding performance and produce 'constructive internal competition'. The Business Area management board met four to six times a year to shape the global strategy and monitor performance. This allowed Business Area managers to benchmark subsidiaries against each other and to encourage the adoption of similar management practices without detailed hands-on interference in the day to day operations of firms. The Business Area had two additional tools to correct poor plant performance, and thereby encourage conformity with its programmes: export allocation and management promotion. All ABB plants were restricted geographically in the areas to which they could market their products and expansion beyond this required the permission from the Business Area. Another mechanism to create competition was the ABB trade company at Mannheim which tendered for contracts and then awarded the order to the firms (or firms) within the ABB network that demonstrated the highest quality and lowest costs. The trade company was in a better position to tender for and win large contracts than individual firms because it was able to offer financial packages for projects.

6.4.4 Workers and the labour process

ABB's process of restructuring and changing the work process stood in sharp contrast to that of Volvo. In the early 1990s ABB laid down the four principles according to which it was going to demonstrate the applicability of business and managerial reform in CEE : first, the immediate reorganisation into profit centres with well defined budgets, strict performance targets and clear lines of authority and accountability; second, to identify a core group of change agents from local management, and give small teams responsibility for championing high priority programmes; third, the transfer of ABB expertise from around the world to support the change process without interfering; four, to keep standards high and demand quick results.

The Production Manager at ABB Dolmel who had worked for the former Polish SOE for nineteen years outlined the main changes that had taken place since 1990. These included new technology, new processes, extensive training in business skills, cost measurement and people management. The major change in the organisation of work was that in 1994 the production process was broken products into five different profit centres to which the previously centralised functions of manufacturing, quality control, purchasing and process engineering were devolved. According to the Production Manager visits to plants in other countries had inspired the new restructuring ideas which had been internally generated and evolved through discussions with colleagues in other countries and workers in the Wroclaw factory. He explained:

> This is Poland, and this is Wroclaw and these are not exactly the same people and we have to find some compromise between our organisation and our knowledge. It is not exactly the same.......It is difficult to move the same organisation, the same structure from other countries to Poland and to try to convince people that this is the best solution for everybody. (Production Manager ABB Dolmel)

However, while this was the official line as soon as the tape was turned off the Production Manager suggested that the Polish management were not consulted and were treated as second class citizens by the parent company in that they were conveyor belts for orders from senior managers. Further, the foreman who gave me a tour round the factory emphatically denied any employee involvement in the restructuring of work within the factory. Whereas Volvo employees had internalised the company culture there was a significant gap between the enabling myths generated by ABB and the perceptions of workers in ABB Dolmel (power generators).

The Production Manager at Volvo explained that in the case of workers from previous SOEs such as Jelcz (the truck and bus company with which Volvo had a joint venture) old habits and attitudes had to be unlearned. In particular, workers being motivated by responsibility rather than control was a new departure, in that Polish management under the previous regime had been based on a culture of hierarchy, discipline and order. Ideas and edicts came down from senior managers and workers were expected to comply passively and there was therefore little or no incentive to innovate.

Another distinctive feature of Volvo's work organisation was its attitude to recruitment. In an international study of bus and truck producers, Thompson *et al* (1995) found that there was no consistency between the qualifications and skills required by different producers of commercial vehicles. They found that strikingly different inputs of labour were used which ranged from craft employees to 'raw semi skilled workers'. Volvo used a mixture of both skilled and experienced workers and young semi-skilled workers in production, and behavioural characteristics and attitudes were cited as more important for recruitment than technical or skill qualifications. The Managing Director explained that;

> Even if people have experience that doesn't mean they have Volvo experience so they are starting from the same point. An open mind is the really key factor for people. (Managing Director Volvo)

The Production Manager identified a number of areas where past behaviour was a barrier to adapting to the Volvo culture and way of doing things. First, Polish firms were (and are) much more hierarchical and based on age and therefore some of the older workers found it hard to accept orders or instructions from someone who was much younger, as in the case of the Polish Production Manager. Second, another continuity with past behaviours that was found to be obstructive was individuals trying to improve their personal standing by proposing organisational changes which were motivated by self interest rather than the efficiency and development of the firm. Thus some individuals sought to mould the emerging organisational structure to give themselves a good position or a power base, and continuity with the past was exhibited through rent or position seeking which was prevalent under the old regime. Third, the Production Manager reported problems in trying to get workers to take responsibility for their work, and gave instances where quality was not up to standard and workers gave lots of excuses or blamed poor components rather than finding solutions. He suggested that it was difficult to get workers to see that it was not important to apportion blame or to attach guilt but to look for processes or procedures to ensure that mistakes did not reoccur. The Production Manager explained that;

> This was the most intensive period - having a meeting every day to teach them how to solve problems and how to fulfil the tasks and I was some sort of buffer between

> production and other departments. Because they were trying to find out reasons everywhere else, reasons for not fulfilling the goals: the goal was not acceptable, they were not getting the materials on time and so on. So they start to be proud about they have done and build themselves up (ibid).

Four, and a related issue, was that it was hard to instil an understanding of a way of problem solving to trace the location of faults.

> A lot of people were not prepared to take sequencing activities to solve the problems. I explained many times how you use sequencing to find problems. It was very hard to put it into practice. There were barriers inside the mentality of the people. Everyone wanted to go with their solution rather than talking about it (ibid).

In the light of these difficulties the Production Manager saw it as his job to 'teach what was important and how they should act'.

> At the beginning we had a production meeting every day at 8.00......At that time we didn't have ISO or structures. We concentrated on three tasks. I said to them this is the most important, if you cannot fulfil delivery precision concentrate on quality, quality you have to do and delivery precision will follow later. So they were coming with a lot of questions for us, they were trying to force a different way of working, a different way of looking at problems. I would say it took me a tremendous time convincing people because they had their own way of thinking in their previous jobs. They realised that the structure was not stable so we could do as we would like. So it took me a long time to convince people (ibid).

The Production Manager explained how the framework of the Volvo concept of work organisation was established:

> We had a lot of good people but they did not have many of those experiences. So first we narrowed those parameters to the most important, which was first quality, second productivity. So time per truck is second. There was a third parameter which was delivery precision........So we took these as the three parameters for the workers. We said that everyone is responsible for their own operations and also for the quality of that work. We didn't have controllers checking what is done. So we pick up the truck after they have got green OK and then we are measuring whether they come up to Volvo quality standards. If the product has a fault then we trace it

> through the paperwork. This was a huge difference in terms of the companies that they came from. Before they worked in an atmosphere where the quality was belonging to the department, quality control. Now they have responsibility for quality and the quality department only measures and checks quality. So this was a big step and I would say it took half a year of one or two hours daily working with my foremen, my work leaders and the blue collars to understand. (ibid)

However, this did not mean that working practices and concepts of team work could be transferred unproblematically from Sweden. The Production Manager explained;

> Originally it was planned to have a similar organisation to Gothenburg with a foreman and a team leader. We had half a year trial period and found that this was not a good solution for us because we only had five stations. Therefore, what was more important was vertical teams between assembly and preassembly and with logistics. Our teams now are based on the idea that each line station has two or one preassembly line stations which are delivering the materials for them. (ibid)

The work organisation (within the three parameters) was a home grown system, not just in order to adapt to local culture but mainly to adjust to working in a low volume situation.

> We looked at what we could learn from Gothenburg and Gent but they are much more focused on productivity per operation. The operator has three or five operations in the truck so that he can really specialize in that. But because we have a small line our station time is one and half hours, in Gent it is 12 minutes. So we have to transfer some know how and how to work and the workers have to know 30 or 40 operations so we have to support them with very good information (ibid).

The details of work organisation evolved in a much more participatory and iterative way.

> I took my engineers and foremen and some blue collars for a big meeting. OK now we will use four hours to think what we should do to change production. So they did some brainstorming and put their ideas on yellow pages and we put them on the table. Out of this we started to do more brainstorming……..Later on those yellow pages were not important …they started to talk to each other and discuss their problems..…….It was eight hours and we didn't finish. So we took one week's

> break. I think it took six meetings to come to some real conclusions....The initiative and guidelines were mine but really it was this team talking about how they wanted to work....After the meetings they were going to their colleagues and talking and if they didn't succeed in selling this idea they were coming to the next meetings with questions or doubts (ibid).

Semi autonomous work groups have been a constant feature of firms which have been influenced by the sociotechnical or human centred production tradition in Sweden. Commercial vehicles is typical of those industries where the relation between the person and a machine is being replaced by the relation between a team and an integrated production system. However, teamworking is not a fixed package and the problem with the concept is that it has been used generically to cover a variety of different concepts and practices. Issues such as the extent and nature of delegated powers, or whether the socialisation of team members plays any significant role, are contingent on a variety of national, corporate and local factors. In Volvo Wroclaw the team played a vital role in socialising workers and training new workers in the team, with each team having one or two experienced (and usually older workers). This was designed to encourage the sharing of tacit knowledge.

Small group activities are seen as offering a framework for human growth, self development, sociability, participation and other classic ingredients of job enrichment (Thompson *et al*, op.cit.). However, there were constraints on autonomy and the intensification of work meant that it was managers who determined the definition of skills and the preconditions for using them. Workers had some autonomy but only in the context of a stringent quality system, where quality criteria were codified in documents produced by the quality department working with production engineers in the design department in Gothenburg. Measurements were specified down to the last detail such as distances (in millimetres) between screws. Information was published about the performance of all subsidiaries which were then compared and therefore factories competed with each other in terms of the scores achieved at product quality audits. The global manufacturing management team organised the rotation of auditors to get the same eyes on production in different countries. One person collated the information from all factories and made one complete audit, and in this way tried to standardise quality across all operations in different countries.

Volvo's organisation of work in a general sense has been viewed as human centred work, although this has been rather tarnished after the closure of their innovative production plants at Uddevalla and Kalmar in 1992 due to the imperatives of cost reduction and competition. The details of work organisation, however, varied enormously both within Sweden and across national boundaries. The evolution of the production system at Wroclaw has been consistent with the relatively small scale of the operation but has also utilised the ideas and knowledge of the shopfloor workers. There was no attempt to impose a blueprint of work organisation that had been used elsewhere. However, the extent to which tacit knowledge from the locality has informed work design should not be overstated in that management worked constantly to overturn institutional roadblocks to change. The young Polish Production Manager was a critical link and mediator between the company culture and the Swedish management, and the habits and norms of workers.

> Now I have a very good picture of my people. I recognise how they behave, how they are acting. (Production Manager Volvo)

Work could also be viewed as more satisfying given that relationships were less hierarchical, all workers were known personally to the Production Manager. Christian names were used, unusual in the formal Polish culture, and workers and management used the same canteen. There were many initiatives such as badminton and football competitions to try and break down barriers between management and workers. However, the style of management was much more one of paternalistic leadership than participatory democracy or empowerment. Familial metaphors were constantly used, particularly the notion of the firm as family. Senior and middle management referred to employees as 'my' or 'our' people and saw themselves as father figures. In return for looking after their workers they expected them to reciprocate with a high degree of loyalty and adherence to a particular set of values.

6.5 IMPACTS OF CULTURAL AND COGNITIVE EMBEDDEDNESS

This section explores the impacts of cultural and cognitive influences on the embeddedness of the two case study firms in the locality with regard to technological upgrading, labour markets, supply linkages and their impact on indigenous firms.

6.5.1 Technological upgrading

Previous sections discussed the way in which changes in corporate culture and establishing western style management practices were central to the change process in both firms. However, the restructuring process went further than this in terms of both organisational change and upgrading production and processes. In ABB Dolmel the traditional structure of the SOE was immediately changed into divisional (product oriented) structures, which had responsibility for supply, production, quality assurance, research and development, marketing and sales. Tight budget constraints and responsibility for economic performance was delegated down the hierarchical chain of the division. Physically the amount of space utilised was contracted as the firm concentrated on its core operation. The huge site on which the Dolmel SOE was located entailed a 1.5 kilometre walk between administrative buildings adjacent to the road and the production area at the back of the site. The large number of buildings which lay between were either empty and derelict, or had been occupied by a number of small firms which had moved onto the site.

Two restructuring projects were introduced to upgrade the firm's technical performance, to transfer organisational know how and integrate the firm with other ABB centres which are summed up in Table 6.3.

In terms of technology the new Wroclaw factory of Volvo Bus Poland was one of the most modern and ecological bus factories in Europe. It was the first factory to integrate bus chassis and body production which saved between 70 and 100 person hours per bus.

Table 6.3 Restructuring projects at ABB Dolmel (power transformers), Wroclaw from 1991-1999

AREA OF OPERATION	DETAILS OF PROJECTS
Technology	technology transfer - air cooled generators, infrastructural investments integration process with other ABB technology centres, development of package for the local market.
Production	Investments in cooled generators, improvement and stabilization of the quality, reduction of production cycles, increase of work efficiency, increasing cost effectiveness, improvement of work conditions, introduction of new technologies.
Organization	development and implementation of the quality system consistent with ISO 9001, adjusting of internal structure to ABB organisation scheme, expanding the communication infrastructure, implementation of an integrated computer system supporting management of production, finance and trade activity.
Employees	broad range of vocational and supplementary training, intensive recruitment of highly qualified employees, training program, selective recruitment and promotion system, motivation systems
Finance	development and implementation of financial controlling procedures, installation of financial accounting computer system, integration with ABB finance system, integration of finance system with production management system.

Source: ABB

Therefore both firms were operating with technology which was at least as good as their counterparts in other countries.

6.5.2 Labour market effects

The job contribution of Volvo was significant. In 1995 200 people were employed in the assembly of trucks and buses, however the decision to build buses on the site increased employment to 2,000 by the end of 2001. Further the relocation of the frame builder, Weibulls, from Sweden onto an adjacent site created a further 600 jobs by the end of 2001. The employment effects of ABB were more complex. In 1990 when ABB took over the Dolmel SOE the operation was split into ABB Dolmel Drives which employed 1200 workers and ABB Dolmel (power generators) which employed 400 workers. Between 1990 and 1998 the number of workers at ABB Dolmel (power generators) had increased by approximately 25 per cent from 400 to 513 workers. However, employment at Dolmel Drives fell from 1200 in 1990 to 450 by 1998 and was closed by 2000 with the loss of the remainder of the jobs (this is discussed in section 6.5.4. Consequently as a result of restructuring the former Dolmel SOE over the ten year period there has been a net loss of 1000 jobs.

It is not only the quantity of jobs which measures the embeddedness of firms in a locality but qualitative aspects related to the level of skills and training.

Table 6.4 Employees by education at ABB Dolmel (power transformers) in March 1999

Education		Number of employees	% of employees
PhD		5	1.0
Higher	Technician	145	28.3
	Economist	23	4.5
	Engineer	10	1.9
	Total	183	35.7
Secondary	Technician	134	26.1
	Economist	19	3.7
	Engineer	28	5.5
	Total	181	35.3
ZSZ		126	24.6
Basic education		26	4.5
Lower than secondary		149	29.0
Total at Dolmel		513	100

Source: ABB Dolmel

Table 6.4 shows that the workforce at ABB Dolmel had a relatively high level of skills with over one third of the employees having a degree, usually from either the Krakow Academy of Economics or the Wroclaw Technical University. In 1992 ABB tapped into local expertise by recruiting fourteen lecturers with doctorates directly from the Wroclaw Technical University to work on research projects. This built on links that had been established between the company and a department in the university which had worked on generators and energy producing machines since the late 1980s. These scientists were linked to Baaden in Switzerland by computer and by 1998 twenty five engineers were working with people from Baaden in research and development on a project investigating new technology for generators. These scientists at ABB Dolmel (power generators) were working as if they were in the Swiss department, using German documentation and language and receiving their wages from Switzerland.

In 1999 Volvo was in the process of starting to recruit 1800 additional workers. The local reputation of Volvo was such that the firm did not need to advertise, because there was a constant stream of applications. Volvo wanted people who were proactive and taking the initiative in applying for a job was viewed as the first step. Every candidate had at least two interviews. Although qualifications were required for particular jobs such as welding, electrical assembly or painting, the main criteria was attitudinal. The Human Resource Manager said,

> Our experience is that the most important thing is that people have the proper attitude. If people have high qualifications but we can see he is problematic then I would say that he would not be employed. (Human Resource Manager Volvo)

Attitudes, flexibility and potential team working ability were teased out at an interview with a representative from HR, future supervisors and other specialists where appropriate. The HRM department developed strong links with particular departments, such as welding in order to know their specific recruitment and training needs.

> What I have learned is that really the most important thing is to secure very good procedures for recruitment, because that will save a lot of problems in the future. If you have good staff, with good attitudes with good qualifications - this means much less problems. You should check the qualifications, check the references, check the knowledge, check the papers as much as possible. This is much better than having to have a lot of change programmes (Personnel Manager Volvo).

A sign of Volvo's success in recruitment and training, according to the HR Manager, was that during four year period that the company had been on the Wroclaw site, there were only been two disciplinary cases. This attribute of having an 'open mind' is specific to the recruitment strategy of Volvo and is not regarded with such importance by other firms in the vehicle producing sector. Thompson *et al* (1995) in a cross cultural firm survey found that German and Swiss producers, for example, prioritise formal engineering skills in their recruitment of workers.

However, there was some dissonance between the rhetoric and reality of attitudes towards experienced, older workers. The Production Manager talked about the need to balance both youth and experience, but applications from older workers, especially from SOEs threatened with bankruptcy, were treated with apprehension. It was suggested that workers who had worked for the same SOE for thirty years would be less open to new ways of working and behaving, having had longer exposure to the norms and habits of the previous regime. In comparison younger people were seen as empty vessels for new ways of working and therefore more adaptable and malleable. The figures in Table 6.5 bear out this preference for youth over experience with 50 per cent of blue collar workers under 30 and 77 per cent under 40, with broadly similar proportions for white collar workers.

Table 6.5 Age structure of employees at Volvo in March 1999

Age	Percentage of Workforce	
	Blue collar	White collar
19-29	50	47
30-39	27	34
40-49	20	17
Over 50	3	2

Source: Volvo

While there was no shortage of well qualified blue collar workers, Volvo found recruitment for some white collar jobs a problem. These shortages reflected developments in the local market. Initially people in marketing and sales were in scarce supply because of an influx of foreign companies that were trying to establish sales and distribution. A lagged supply effect meant that universities had now started teaching this subject to young graduates and training companies were reskilling existing white collar workers within firms. In 1997 they had experienced labour shortages in the area of financial management and logistics, functions that had not existed under the previous regime. By 1999 Volvo faced difficulties in recruiting production engineers and designers because a shift to FDI in production had created an increase in demand for these skills in the region.

In both ABB and Volvo information on wage levels was very hard to obtain, partly because of a reluctance to divulge what was regarded as confidential information, but primarily because of complicated pay scales associated with individualised performance related pay. In the case of ABB Dolmel an individual's remuneration was broken down into base pay (74 per cent) annual bonus (12 per cent), holiday money (6 per cent) and a variable element (8 per cent). The base pay is based on the job requirements, inflation and the going rate in the local labour market. Detailed information on the local labour market including rates of pay for a variety of jobs and grades was provided by the Neumann Institute, a group of German consultants. The variable element of the pay and annual bonus was determined by a complex system of employee appraisal that had been transferred from the ABB Business Area via a manual and training sessions.

Similarly, in Volvo workers receive additional remuneration on the basis of their work performance and additional training and education. The criteria included professional growth or knowledge, independence, cooperation, quality and work organisation. In contrast with ABB the Volvo reward system is more eclectic and locally adapted taking elements of the pay structure from the Swedish and Polish systems. One element of the pay structure which was (re)introduced at the beginning of 1997 was a Social Fund, which all firms were required to operate. This legislation obliged firms and their employees to put an amount of money into a Social Fund which was then used for individual loans, hardship payments or social grants such as vacations for children.

The notion of being people centred (Sandberg, 1993) was central to the Volvo philosophy. The company professed three core values of quality, security and the environment. Their view was that people who are well supported, secure in their employment and with good working conditions will be better (and more productive) employees. Therefore there was much emphasis on training, education and personal development. The current Volvo HR Manager was a young Polish woman in her late twenties who was initially recruited in 1993 as assistant to the Managing Director. Although she was fluent in English she had no formal qualifications and no previous business experience, and was trained by attending locally organised courses on labour law and was encouraged into the Volvo way of thinking by attendance at management meetings and coaching by the Managing Director.

In line with its people centred approach Volvo placed great emphasis on the continual training and education of employees. The training needs of individuals were defined by the supervisor, although workers could request training in particular areas. There were four types of training. First, training which is required by law for example in health and safety or that which is necessary for particular jobs such as certificates for welders or those working with high voltage electricity and driving licences. Second, general training organised in languages (four different levels of English, French and German) or computers. Third, there was additional specialist training in logistics, finance and distribution. Four, 'soft training' which would include communications, personnel management, how to handle interviews (for supervisors) and negotiations (for purchasers).

In the case of Volvo most of the training was supplied by educational institutions or training companies. The quality of courses was strictly monitored, which involved initially eliciting recommendations for courses and provider institutions from other foreign firms, which was followed by evaluation by the HR Department. Every institution or college had a one year trial period and had to achieve a certain number of points to be used on a regular or permanent basis. Volvo aimed to develop long term cooperative relationships with key institutions. The HRM had a great deal of latitude in committing spending to training and development, although the Managing Director had to approve any exclusive or expensive training. By mid 1999 the HRM department was moving to producing costings for training to make supervisors and managers aware of the cost implications of their decisions. In the case of ABB training was front loaded with a high budget allocated in the initial period of restructuring between 1990 and 1994, using in-company provision in Warsaw to effect a rapid change in attitudes and management culture. However, the transfer of expertise was a two way process. Although local managers had been intensively trained in the management practices of the market economy, the technological expertise of individual Polish workers was integrated in the global research and development networks of the company.

By 2001 Volvo will have created 2000 jobs since its arrival in the region. In terms of the quality of employment workers at all levels have access to extensive ongoing training which went beyond the immediate demands of the job and was designed to be personally enriching. However, the labour market impacts of this flagship investment have to be tempered by the fact that Volvo exhibits a bias towards recruiting younger workers, reducing the opportunities for older skilled workers laid off from SOEs in the region. Further, job creation has to be offset against the competition effects Volvo has had on other firms in the region as we shall see in Section 6.5.4.

Volvo had history of collaborative industrial relations and inclusive work organisation. However, whereas trade unions were central to consultation in Sweden, their role was peripheral in Poland and no attempt was made to assign them a similar role to the one they had played in the home country. In 1999 the membership of Solidarity in the Wroclaw factory was 330 out of a work force of 1100, which had been built up from twenty when the plant started assembly in 1993. The President of Solidarity painted a picture of workplace relations that was at odds with the management's enabling myths of consensus and cooperation. A major cleavage in the rhetoric of management and the perception of the worker's representative centred on the lack of consultation and cooperation. In September 1999 the first major dispute had erupted over this issue in general, and a lack of negotiation over pay specifically. Further, it was suggested that there was an atmosphere of indirect hostility, and a 'climate of discomfort', and this was very visible when workers promoted to team leaders invariably resigned from the union. The President of Solidarity (a man in his late twenties) had been told directly that his role as a union activist was incompatible with progressing and promotion in the company.

It is difficult to know how pervasive this view was among workers who were non union members, and the union representative's explanation of low union membership was that younger workers, who comprised the majority of the workforce, had a lack of awareness of unions and workplace rights. Although we should be cautious about viewing workers as homogenous in their attitudes, there was some evidence that management discourses while not actively resisted, were not necessarily absorbed. This was reflected in a survey carried out by regional Solidarity in order to give awards to top scoring 'worker friendly' workplaces. A sample of workers were surveyed in each of the firms who agreed to take part, and they were asked to award point in a number of categories such as communication, management culture, wages and training. The top three firms were PZU Insurance (Polish firm), Danfoss (Danish water pipes maker) and a Polish copper mine. In confidence, I was told that Volvo was not particularly well rated by the workers and came eighteenth out of the twenty seven firms in the survey. The President of Solidarity also pointed out that the reputation of Volvo as high paying was overstated and that the gross average monthly salary of 2000 zloty (£400) was inflated by including the salaries of higher paid white collar workers. He claimed that the starting salary (not adjusted for inflation) for incoming blue collar workers had fallen by 10 per cent in real terms between 1997 and 1999.

6.5.3 Supply linkages

Decisions regarding sourcing had a significant impact on local economic linkages and the multiplier effect of an investment decision, and corporate culture had a strong impact on the relationship of the two case study firms with their suppliers. In Volvo the manager in charge of purchasing within the plant, also had the role of Volvo Global Sourcing Manager. His brief was to find suppliers inside the former CEE economies and in particular, Hungary, Poland and the Czech Republic with a view to sourcing bus, truck, marine and construction supplies. In the initial stages of Volvo's investment in assembly local supplies for the operation were very limited. In 1997 all components were imported as kits from Finland [1] (buses) and Ghent or Goteburg (trucks) apart from tyres that were bought from Michelin and Continental in Poland. Only second order supplies were bought locally, these included: the services of local construction companies, for example welding; maintenance equipment, computer parts and programmes; local consultants; English and computer courses; gardening and cleaning.

Volvo's decision to expand and relocate complete bus production from other parts of Europe to Wroclaw had significant implications for sourcing. A decision was taken to start sourcing non strategic supplies related to body building (steel, sheet metal, glass, interior parts electronics) from Poland, while strategic supplies related to the chassis (axels, gearbox, engine, wheels) would continue to be produced in Goteberg. The argument was that higher value added products would continue to be produced in Sweden to achieve economies of scale, but the decision was also motivated by the desirability of keeping full control of the technology and maintaining quality standards.

In the case of Volvo proximity was viewed as an important criteria for suppliers, although the degree of proximity varied with particular products. In 1998 the frames for buses arrived in parts and were welded together on site. Weibulls, the firm that supplies building frames for the buses, was moving from Sweden to a site adjacent to the Wroclaw factory, employing between 500 and 600 workers by 2001. There was adegree of coercion from Volvo involved in this decision as Weibulls were told that failure to relocate would have led to Volvo looking for a new supplier.

Volvo's policy was that bottleneck supplies (mirrors, fabrics, doors, glass, windows, seats) which the customer ordered late and where the lead time was fairly long should be located within a 300 kilometre radius. It should be noted that bottleneck supplies are fairly low skill, low value added operations in comparison with the production of engines and gearboxes for example. The implications of this 300 kilometre policy were that it was possible to locate in areas in the West of Poland such as Katowice and Poznan but ruled out Warsaw and areas to the East of the country. The reason given for the necessity of proximity was to keep the exchange of information and communications easier, and this distance meant that face to face contact could be maintained by a one day car journey. It was suggested that the reduction of psychological distance increased control of, and obligation on the part of the supplier. The Manager for Global Sourcing explained this decision:

> It is not related to costs, it's related to getting flexibility in our production...because every bus is a unique individual this means that you need to have a high degree of flexibility, both from the supplier point of view as well as in your production. Every bus is a customer ordered product and that is the main reason we are asking suppliers to locate in this area. (Global Sourcing Manager, Volvo)

Volvo preferred to retain flexibility in their use of suppliers and rejected any idea of moving to long term agreements with preferred suppliers:

> We are not going to do this because the world is changing so rapidly and I believe that competition is the only parameter to increase activity within the company in all areas such as quality, lead times, performance and prices. From that respect it seems to me strange to make long term arrangements. (Global Sourcing Manager Volvo)

ABB's policy on suppliers was much more arms length and by the book and proximity was only important in as much as it reduced costs, not because of any perceived value of face to face relationships. The classification of suppliers was consistent with ISO 9001 and internal ABB rules. First level suppliers produced less important items where lead times were short. Leverage items were those items with a higher complexity and level of technology, whereas bottleneck items were those with market complexity, that is where lead times tended to be long. Finally strategic items were those that had a higher technological complexity and longer lead times and were central to the production process.

Suppliers themselves were then classified according to a number of criteria. Level 0 comprised the entire potential pool of suppliers and Dolmel could not buy any goods or services from this sector. A Level 1 supplier had to have a commercial and technical evaluation, which involved a visit to check the history of the firm, and the production arrangements. Level 2 is qualified supplier status. This was more complicated because the firm had to complete a Supplier Information Questionnaire

(SPIQ) and it was preferable, but not mandatory that the firm has ISO 9001. At Levels 3 and 4 ISO was mandatory and the Supplier Performance Rating (SPR) must be higher than 76 or 90 per cent respectively. The record of suppliers is constantly monitored and SPR is based on their performance in the last period measured by criteria such as flexibility, price and delivery dates. If a supplier could get on ABB's list of qualified suppliers (kept by the Business Area in Switzerland) it could potentially supply any firm in the Business Area.

Both ABB and Volvo worked with potential suppliers to help them achieve the necessary standard of production and/or quality. In the case of Volvo they would work within the designated radius for particular components, with firms who had the potential to become suppliers, and particularly those that had the 'right sort of management'. They would explore mutually beneficial developments such as the use of cadcam to transfer drawings and review production processes and quality procedures. ABB had been working with a potential strategic supplier since 1992 and were finally given permission to use them in 1998. The firm Bochnia, a spin off from Huta Sendzhimira Steel Works, produced magnetic steel which constituted Dolmel's biggest volume of purchases. Bochnia was based 300 kilometres from Wroclaw near Krakow, but the relationship with the company was motivated by the possibility of substantially reducing costs, through both transport and labour costs, rather than a preference for face to face contact and communication.

There were several differences in the relationship between the two firms and their suppliers. First, ABB put much greater emphasis on the cost reduction of supplies and worked with suppliers to reduce costs on an annual basis. Volvo gave more weight to the notion of landed costs, which included the concept of quality and delivery precision. Landed costs are the cost of the product combined with the transport and handling from the supplier to landing at the site for production. Second, ABB had a (two way) open book philosophy whereby they showed their costs, order book, information about competitors to potential suppliers to explain their needs for the relevant period. Suppliers had to reciprocate by giving information about their financial position, how they would fulfil production requirements, and their plans for the investment. A further feature of this relationship was ongoing discussions about continuous cost reduction. Volvo, however, rejected the notion of an open book system and preferred to have an open relationship system to build trust and confidence which they regarded as mutually beneficial. Third, whereas ABB prioritised cost reduction Volvo put emphasis on encouraging suppliers to have a diversified customer base rather than being solely dependent on them.

Table 6.6 A comparison of the supply strategies of ABB and Volvo in 1999

Variable	Volvo	ABB
Relationship	Open relationship	Open book
Strategic supplier	Sweden	Poland (after 1998)
Bottleneck/leverage suppliers	Between 300 metres and 300 kilometres	Anywhere
Costs	Landed costs (quality & delivery precision)	Constant reduction targets
Working with suppliers	Encourage diversification	Prioritise cost reduction

Source: Author

The status of being suppliers for prestigious western companies coupled with the transfer of expertise, technology and upgrading offered the possibility for supplier firms to develop in two ways. First, they could more easily become suppliers for other foreign investors in the Polish market which demanded similar quality standards. Second, they could go on the list of approved suppliers for ABB and Volvo. However, becoming an approved supplier for the industrial networks of both ABB and Volvo firms involved a long, demanding and costly evaluation process. In the case of Volvo potential supplier companies had to be measured by a number of stringent criteria: financial, environmental, quality, management activities, and the education and training of the employees. The Global Sourcing Manager was keen that the new Polish companies that were dealing with should become approved suppliers for the Volvo industrial system.. In his view it would take Polish firms three of four years to achieve this status.

Corporate strategy on suppliers and sourcing had a direct effect on the impact of embeddedness and local linkages. In the case of ABB proximity was not an issue and the firms sourced over long distances with few connections in the locality. The impact of Volvo's policy on sourcing was more mixed in terms of local linkages. Strategic supplies were imported from Sweden, and because they embodied a large degree of technology this limited technology transfer to the region. A range of bottleneck suppliers were located within 'a day's drive' that were largely in areas outside of the region. However, a significant multiplier effect was created by the supplier of metal panels moving onto the same site.

6.5.4 Impacts on indigenous firms

Previous sections have examined the generally favourable and positive impacts of ABB and Volvo in terms of the quantity and quality of jobs and upgrading of technology. Neoliberal assumptions about the role of foreign investment in transforming economies have assumed that a competition effect that would stimulate existing firms to restructure and become more efficient. Some evolutionary accounts have suggested that the recombination of incoming firms with local knowledge and skills could produce a propitious outcome. However, these sanguine views of the impact of foreign firms have to be counter balanced by their impact on indigenous firms and subsequent employment effects. This section examines two case study firms that have been adversely affected by the impact of foreign investment. The first firm is Jelcz, Poland's largest producer of trucks and buses, which was in direct competition with Volvo. It is argued that the accrued learning of international oligopolistic TNCs coupled with the inappropriate corporate culture and learning abilities of previous SOEs suggests that the playing field for indigenous firms is uneven. The second firm is ABB Dolmel Drives, one of the firms bought by ABB that was asset stripped and declared bankrupt after eight years. The main point here is to illustrate the use of enabling myths to gain ownership of firms and the acquiescence of the workforce, while disembedding local productive capacity.

Jeclz: the 'wrong' corporate culture

After the beginning of transformation in 1990 the privatisation process at Jelcz was protracted. Negotiations with Volvo, who wanted to take a bigger share of the firm, were blocked by Solidarity on the grounds of a reduction of employment. The shares were eventually sold to Sobieslaw Zasada Centrum (SZC), a firm owned by a Polish racing driver and backed by Mercedes in 1996. This foreign investor was seen as offering a better long term future and guaranteeing the necessary level of social provision [2].

Alongside the privatisation negotiations Jelcz began the process of restructuring in 1990 by spinning of non-core activities such as social functions and other small and medium production and service firms. In 1989 total employment stood at 10,000 and by 1999 it had fallen to 2,400 workers. According to senior management there were a series of investments to lower costs, increase efficiency and quality that included; changes in painting technology; technology to lower emissions; co-operation with Mercedes on a new design of city buses and; working with Iveco (Ford truck producers) to improve components. Quality controls have been exerted over suppliers with attempts to lower stocks through JIT and Jelcz have now been awarded ISO 9001 through a German-Polish organisation. However, Business News from Poland (1999) claims that despite frequent declarations to restructure, SZC has not launched any serious investment projects, and that the policies pursued to date have led to a decline in the sale of both lorries and buses as clients are unclear about the future plans of the company. By 1998 Jelcz's share of the domestic market had fallen to 38.2 per cent, while Volvo's had increased to 14.3 per cent.

The structural and cultural legacies of the previous regime such as over employment and outdated products and processes, limited Jelcz's ability to restructure in the face of intensified competitition. This was reflected in the fact that Jelcz vehicles, according to their own management and workers, had a poor reputation for quality and reliability. Their traditional market to the East was severely affected by the Russian financial crisis in 1997. Diversification into western markets was severely constrained because it was already saturated and because Jelcz lacked established service networks to support sales, and crucially competitors were able to offer much better terms of payment through their own credit companies.

Central to the problem Jelcz faced in competing with established western TNCs were bounded cognitive abilities that produced a lock-in to old routines. This was related to a large degree to problems they faced in the labour market. Jelcz had experienced a large turnover of young management, which was partly due to the relative geographical isolation of the factory and its inaccessibility without a car (see Figure 4.1). More importantly, however, Jelcz could not compete with the salaries offered by other foreign investors to attract high calibre well qualified young professionals. Most of the existing management were internally recruited and had worked for the firm for twenty years or more. One member of senior management had previously held a post in national government and was involved in the abortive JV negotiations with Volvo. Further Jelcz had a relatively old manual workforce with an average age of 43, which current management viewed as a barrier to flexibility and adapting to new technology. Solidarity, however, claimed that Volvo had been poaching workers in order to expand, the effect of which was to further deplete the quality of human capital in Jelcz . Thus the possibilities for innovation and breaking with old routines were constrained.

In mid 1999 the prognosis for Jelcz was not good, only a contract to supply a large number of bus chassis to China ensured its survival in 1999. It is clear that this previous SOE had limited possibilities for competing in an open market, particularly against Volvo's extensive experience of operating in international markets, supported by tried and tested production methods and importantly the financial and after care facilities reflected in its corporate culture. Further, as we saw in the previous section part of Volvo's competitive advantage lay in its cognitive skills of shifting the mind set of workers associated with the previous regime and introducing more efficient ways of working linked to engendering a strong Volvo identity. The experience of Jelcz suggests that the economic impact of Volvo should be regarded in a rather different light, that is rather than adding to existing capacity it is in the process of supplanting existing firms in a situation where competition is not a level playing field.

Dolmel Drives: Enabling myths and asset stripping

The competition effect of ABB on the previous SOE Dolmel was of a different nature. In short, while ABB Dolmel (power transformers) was made internationally competitive, any changes that took place in ABB Dolmel Drives fell far short of making it a serious contender either in the external market or the internal market of the ABB industrial group. ABB Dolmel Drives came from the same parent SOE as ABB Dolmel and was established in 1990. Situated next door to each other the firms shared the same canteen and social facilities. Initially ABB had 20 per cent of the shares in the company with the other 80 per cent remaining with the State Treasury. The company made engines for railways, city transport, mining and shipbuilding. In 1990 there was a willingness and enthusiasm from Solidarity to 'open to the West' and have a foreign investor. After the agreement was signed with ABB the prospects for the firm were regarded as favourable. Employees wages were 50 per cent higher than the local average and it was believed that ABB had promised to develop the company and introduce new technology. In 1996 ABB purchased 80 per cent of the remaining shares (without informing or consulting with the employees) and the restructuring process was accelerated. By 1998 there had been six rounds of redundancies reducing the workforce from 1,480 to 460, production space was reduced and production of the second most profitable product discontinued. There was disinvestment in capital equipment with machines simply being moved out of the factory.

Solidarity realised that restructuring was necessary but at a meeting held in 1998, management from Zurich argued that there had been no new investment because productivity was low. Solidarity felt that this was disingenuous because workers had not been given the resources or know how to improve productivity. The firm was operating with exactly the same equipment that had been there in 1990 and there has been no new technology or technology transfer. Rather, a process of asset stripping had gone on and I was shown a huge hall that used to employ 400 people in 1994 which by 1998 was completely empty. The machinery had either been sold or gone to junkyards. In order to save good machines workers switched labels putting old labels on new machines in the hope that they would remain in the plant. All goodwill had dissipated and great bitterness was evident because Solidarity said that they had gradually realised that ABB had not bought the factory to improve it but as a way of gaining a foothold in the market.

Although the senior and middle management of ABB Dolmel Drives was Polish, from 1996 onwards Solidarity felt that all decisions were taken in Zurich. Solidarity felt completely let down by the Polish senior management and middle management such as the 'young kids in marketing', who 'had been to Zurich to be indoctrinated with ABB culture with no particular loyalty to the company'. The workers said that they felt emotional about the company, they had fought for it (literally) [3] and wanted it to succeed. The significant wage increase in 1990 was now viewed as a sweetener, because although this meant that wages were 50 per cent higher than the average in 1990, it was claimed that they had failed to keep pace with inflation and wage levels were below average in 1999. Social benefits have also been reduced with the two week holiday provided for the children of workers scrapped in 1996.

In 1992 a letter to the management of Dolmel Drives asked for a statement about the future direction of the company and the way in which it was to be developed:

> So far the management has not presented a reliable plan for the Company ....Particularly we badly lack for a clear position of ABB (as shareholder) on and its commitment to the Company's future (investment, new technology, licence documentation and marketing support). The continuation of this state is very distressing and may result in a decline of the technological potential of the company and a loss of highly qualified people, which in the future will make it impossible for the company to develop and increase production. (Letter to the Management of Dolmel Drives Ltd, 15 March 1993)

After further rounds of redundancies in 1998 Solidarity wrote to the Prime Minister to draw attention to what had happened but felt in a weak and hopeless position in terms of defending jobs. They want someone else to look at the books as they no longer trusted the information they had been given by ABB.

> Today, eight years after the foundation of ABB Dolmel Drives and eight years after ABB's management, the company is more technologically and technically impoverished than it was in 1990. With only 460 employees (in 1990 the company employed 1480 people) and the production space reduced, the company is at the brink of total disintegration. Our continuous intervention and warnings have always been categorically dismissed. The only explanation for the status quo is the company's too small ownership capital. Its growth we are told, is expected with the

> purchase of Pafawag, the company which could have been our biggest client................Solidarnosc ABB Dolmel Drives considers these actions to be conscious acts aimed at the destruction of Polish market and the elimination of Polish companies. In view of this fact we ask the Polish government of the Republic of Poland to verify its policy contributing to the growing poverty and unemployment in Poland. How can we tolerate the situation where Polish companies are being sold for minimal sums and without any support plans. Agencja Rozwoju Przemyslu (Department of Industry) sold 80 per cent of Dolmel Drives secretly, not bothering to inform the company employees. The big question we ask is who really benefits from this kind of privatisation. It is certainly not our country and its citizens." (Letter to the Prime Minister of Poland from NSZZ Solidarnosc (Dolmel Drives), 7 April 1998)

By September 1999 the firm was declared bankrupt and all workers were in the process of being made redundant. Although requests to interview members of Senior Management at ABB Dolmel Drives were declined, three members of Senior Management in ABB Dolmel (power generators) suggested that in 1990 ABB had reluctantly been obliged to acquire Dolmel Drives by the government in order to get the quarry of Dolmel, the power transformers firm. ABB had many other firms which made engines and ABB Dolmel Drives was surplus to the requirements of ABB's global operations from the beginning.

Two points emerge from the experience of ABB Dolmel Drives. First the high dependence of indigenous firms on the transfer of technological and managerial know -how from western foreign investors for their survival. In this case the capacity for innovation was reduced through rounds of redundancies and the disposal of machinery. Second, the use of enabling myths in acquiring the acquiescence of workers in the acquisition and subsequent restructuring of the firm. In this case workers had already absorbed the general enabling myth that Western firms would bring automatic benefits in terms of an infusion of capital and knowledge related to the market economy. Firm specific enabling myths were that redundancies were inevitable to increase efficiency and that the bankruptcy of the firm was due to market forces and a lack of competitiveness rather than the deliberate running down of productive capacity.

6.6 CONCLUSION

Volvo and ABB are both global TNCs with the same national origin. The arrival of the firms, albeit by different routes, was related to building on and accessing, the industrial atmosphere and specifically the skilled labour force in engineering. The overall impact on the locality of the two firms has been very different. Volvo has moved from simple assembly to being an 'industrial centre' that produces buses for the European market. This has brought about significant multiplier effects in the local economy with skilled jobs and claims of higher than average wages and human centred employment. Volvo is embedded not only in economic structures but also the formal institutions of the locality that it has actively shaped. In contrast, ABB Dolmel (power generators) although a performance plant in terms of a production process which requires a high technological input, has restructured the original Dolmel SOE to fit in with its global networks. While ABB Dolmel (power generators) has expanded employment and upgraded the production and managerial processes, ABB Dolmel Drives has received no new investment and has been asset stripped with the loss of 1200 jobs.

The corporate culture and cognitive processes in these two firms were reflected in different entry strategies, methods of restructuring and ways of instilling new behaviours, all of which had implications for their quantitative and qualitative linkages in the Wroclaw locality. First ABB's strategy of leasing land and buildings meant that it had only shallow roots in the area, and with few sunk costs production could be easily moved elsewhere. This reflected their strategy in CEE and Russia which was to acquire substantial assets and then review, if and how, they would fit into their global network. Volvo's substantial investment in land, buildings and dedicated equipment, however, meant that they were much more deeply locked into the region.

Second, in terms of restructuring Volvo's preference for greenfield production was motivated by the view that there was too much 'baggage' associated with buying into an existing firm such as Jelcz. A key strategy for getting workers to absorb and internalise the Volvo 'way of working' was to recruit young workers less tainted by old work practices, through a process of highly selective interviewing which put great emphasis on attitudinal attributes. The corporate strategy of ABB was to buy existing production which had to be restructured in a much shorter time frame by using a sort of cognitive shock therapy. This was accomplished by agents of change, that comprised a highly experienced group of ABB managers and consultants who arrived to implement change according to tried and tested recipes and which had no sensitivity to locality. Part of their task was to select Polish managers from within the firm who were more adaptable and then put them through a period of intense training outside the locality.

Third, these firms used very different ways of instilling new collective understandings by replacing what were deemed to be the unsuitable work attitudes carried over from the previous regime. In Volvo employees were subject to an ongoing process of engendering worker identification with the company which included close contact with senior management and the use of enabling myths that centred on teamworking, personal development and familial metaphors. In contrast rather than attempting to get employees to internalise company culture, ABB used blueprints and highly codified procedures to transfer practices relating to HRM, finance and supply management. Further, the Business Area played a supervisory role through sophisticated computer packages which monitored efficiency and costs.

However, we should be cautious about counter posing Volvo and ABB as good and bad, embedded and disembedded examples of foreign investment. The enabling myth of Volvo being a good corporate neighbour was central to its corporate strategy on at least two counts. The Polish market for buses was significant and a good reputation in the country would enhance their ability to win contracts with municipalities. Further, good relationship with the Wroclaw municipality and *voivodship* was important to lobby for upgrading the local infrastructure, and their policy of the long-term presence of a group of Swedish senior management in the area, for example, necessitated the establishment of an international school.

In many accounts the concept of the learning firm and less hierarchical organisational structures have been interpreted as implying more rewarding employment and the possibility of greater embeddedness in localities. However, the claim that Volvo has brought human centred, better quality jobs because of flatter hierarchies and more inclusive company culture needs to be treated critically. Although the two firms have used very different enabling myths to bring about change and introduce new ways of working, they could be regarded as different routes to the same end. Both ABB and Volvo constantly measured and monitored a range of different variables which were then compared with those of other plants or subsidiaries. Devolved responsibility and decentralisation rather than giving managers room for manoeuvre allowed constant comparison by a number of performance and quality targets and was a constant pressure to reduce costs and increase productivity.

In the case of Volvo and ABB learning and autonomy have been central to organisational change, but related to coercive rather than liberatory processes. The pace and content of work and the permanence of these firms in the locality are subject to both the external coercion of the market and the internal coercion of inter-firm competition. The future of ABB Dolmel (power generators) depends on its ability to compete and win contracts within ABB, which relates to its capacity for continual improvements in quality and maintaining low costs relative to other firms within the network. In the case of Volvo inter-firm competition was less explicit. However, in the context of new possible production sites opening up further to the East, the viability of the Wroclaw factory within the firm's industrial network in the long term depends on it being able to constantly not only maintain but improve its performance.

ENDNOTES

1 Volvo Bus corporation and the Finnish producer of body work Carrus Oy created a joint venture company – the Volvo Bus Poland. 1998 Volvo finalised the purchase of shares in the company and became sole owner.

2 A much coveted aspect of the social package was the opportunity for workers to take subsidised holidays in Monte Carlo. The connection with Monte Carlo was the racing driver owner of Jelcz, Zasada. By 1999 500 workers had taken advantage of this subsidised vacation.

3 Dolmel along with Pafawag was a centre for Solidarity in the region in 1981 and the site of running battles with the army who used tanks to break the occupation of the factory.

CHAPTER 7

CONCLUSION: FROM ENABLING MYTHS TO PROVISIONING INSTITUTIONS

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7.1 INTRODUCTION

The overall argument of this study is that the role of foreign investment in the Wroclaw regional economy has been much more complex than neoliberal or conventional accounts suggest, and more contested than the claims of evolutionists. Optimistic accounts suggesting that large amounts of private capital would flow into the previously planned economies of CEE has overestimated the degree to which Poland and its regions have been locked into the international economy. Further, the study of incoming firms in the Wroclaw region showed no justification for the view that recent organisational trends in TNCs offer better developmental possibilities for LDRs. However, neither did the research findings support the pessimistic predictions that regions such as Wroclaw bordering Germany, would become the new 'maquiladora', on the periphery of economic activity, and integrated on the basis of low quality investments driven by low cost seeking firms. The impact of foreign direct investment has resulted in the deep restructuring of individual firms in terms of both material and discursive practices, the effects of which have been highly differential. Collectively these incoming foreign investments have also had a profound impact on the emerging governance of the region.

The aim of this chapter is to reflect on the main themes of radical institutionalist analysis and the embeddededness of firms in the light of the research findings presented in the previous chapters. The second part of the chapter discusses future research avenues that emanate from this study and the final part of the chapter reflects on the implications for policy making.

7.2 PATH CONTINENCY, CUMULATIVE CAUSATION AND PATH SHAPERS

Within the context of modest flows of foreign investment to CEE and Poland, the Wroclaw regional economy has been relatively successful in being able to build on positive continuities from the past. The legacy of a diversified local economy with a number of flagship SOEs had attracted foreign investment on the basis of brownfield entry through the privatisation process. The position of Wroclaw in the West of the country coupled with relatively high levels of educational provision and an established industrial tradition also made it attractive as a location for investment in greenfield developments. Foreign investment has been path contingent in the sense that it was manifest in an extension of strategies based on oligopolistic competition, driven in large part by market access, and to a lesser extent low cost seeking.

Although multiplier effects through supplier linkages have been modest, the arrival of a handful of less risk averse flagship foreign investments in the early 1990s triggered a process of cumulative causation, as these firms provided an important demonstration effect for other TNCs considering production in CEE. From the mid 1990s the next stage of cumulative causation was the arrival of further foreign manufacturing firms and an explosion of foreign investment in hypermarkets, supermarkets and other foreign retailers which have gravitated towards regions with higher levels of income. These previous stages were paralleled or closely followed by changes in the service sector to underpin productive investment. The arrival of foreign consultants and the stimulus to the growth of indigenous service firms, created a local arms of the transnational capitalist class which was crucial for ushering in a new set of ideas and business practices viewed as being more compatible with a market economy than the inherited stock of understandings and assumptions.

Although change was path contingent agents of change were important in this process of virtuous cumulative causation. The formal institutions of regional government, however, played a peripheral role in the arrival and retention of foreign investment, and exhibited a limited ability to 'pin down the global'. Local governance was not only embryonic, but any consensus regarding local development was undermined by conflict between the entrenched interests that carried over from the previous regime and the new emerging agendas of SMEs, TNCs and individuals with different visions of local development. The persistence of inappropriate informal institutions was evident. Past behaviours were characterised by kleptocracy and rent seeking and a culture of exculpation by local elites on the one hand, and passivity and a lack of participation by the majority of the local population on the other. Members of the *nomenklatura* and managers in SOEs had actively transformed social capital from the command economy into financial capital or assets, either as new entrepreneurs or holders of positions in newly privatised firms with foreign investment. Therefore rather than emergent governance structures being directed towards the common purpose of regional development, groups and networks that had been powerful in the past were jostling for position in the new structures.

Ambiguous and embryonic structures of local governance left gaps to be filled by other agents of change. Foreign investors contributed to formal institution building in the region, either by participating in existing organisations or by creating their own chambers of commerce and business clubs. Further, the managements of incoming firms played a major role in lobbying for an infrastructure which could lock the region more tightly into the international economy, either through the establishment of international schools or campaigning for direct flights to reduce the travel time for the transnational capitalist class.

Another challenge to the ability of local structures to harness the positive impacts of foreign investment was the research finding that emphasised transnational firms as being highly reflexive, recursive and active, as they crossed national boundaries. Networking between firms was evident in terms of exchanging information relevant to opening up production and dealing with a new institutional set up. Intellectual capital therefore existed and was shared both within firms, between subsidiaries and HQ, and between firms at different spatial levels. Particularly strong links were evident between producer and supplier firms, and those sharing the same country of origin.

Processes of restructuring and economic change were not smooth or uncontested and 'path shapers' were important in determining the nature of hybrid or recombined organisations as part of the privatisation process. Local privatisation processes and outcomes reflected those at a national level, where competing interests had produced various idiosyncratic outcomes of privatisation. The pace and form of privatisation, and subsequent restructuring was contested by Solidarity in several former SOEs. The trade union had a significant effect on countering some of the enabling myths of foreign investors, particularly those related to job reduction and the contraction of social provision.

Therefore rather than seeing local institutions as static and foreign investment and its institutions as juxtaposed and comprising a separate mode of governance, it is argued that foreign investment has changed the contours of existing institutions and become part of new networks of governance. The argument is that the endogenous input of foreign investment in the manufacturing sector acted as a catalyst for further investment in both manufacturing and services. As a critical mass of investment was reached appropriate political arrangements and institutions were established. Important to this account are the way in which firms 'bent' habits, conventions and collective understanding through new discourses and enabling myths in the workplace and the locality. Therefore firms were not exogenous but were active agents of change that became endogenised in economic, political and social structures and networks. Critical to this process of cumulative causation has been the role of foreign investment, directly or indirectly, in attempting to instill a set of values, beliefs and expectations viewed more congruent with a market economy, while displacing or circumventing what were regarded as the inappropriate institutional legacies of the previous regime.

7.3 ENABLING MYTHS AND CIRCUITS OF INTELLECTUAL CAPITAL

Central to the radical institutionalist analysis is the way in which certain informal institutions or enabling myths needed to predominate in order to create suitable ideological conditions for the market, and to convince people that a particular state of affairs is self-evident. Enabling myths at the level of the locality or the workplace have to be understood in a wider context of their operation and deployment at all spatial levels of economic activity. At a global level the WTO and the IMF have been in the forefront of trying to shift the rules of the game. Coercion through the conditionality of loans has been paralleled by the perpetuation of a set of powerful myths associated with globalisation, that relate to purported relationships between free trade and prosperity, deregulation and growth, and privatisation and efficiency all viewed as the benign results of the free and unhindered operation of the market. This in turn has led to a redefinition of the role and function of national and local states supported by another set of enabling myths, which relate to adapting to global markets. These have been used to justify the necessity of reducing public welfare provision, the introduction of 'flexible' labour markets and widespread privatisation.

In the case of the transforming economies of CEE and their localities such measures were presented as the only option for shaking off the dead hand of the planned economy. At a local level, integration with the global economy has been translated as a form of economic development based on the talismanic powers of foreign investment coupled with privatisation, overseen by a group of local agents with the right mind set. The whole of the opening up and restructuring of CEE has been based on the myth of the market. The market has been sold as the only alternative to the totalitarian and sclerotic communist economies, as an exogenous and impartial construct, which after some initially nasty medicine would deliver rising standards of living for all. However, this study has been underpinned by the assumption that markets are socially instituted and politically constructed in the interests of powerful social groups.

The enthusiasm with which people have embraced these enabling myths, has depended in part, on the extent to which their material well being in terms of employment and social provision has been improved. The *nomenklatura* who have converted their symbolic into material capital, and the young and educated who have found employment in the middle management of foreign investments or the service sector have undoubtedly gained. The experience of manual workers is more mixed and Solidarity is a good illustration of schizophrenic thinking about the market. At a national level Solidarity was one of the greatest enthusiasts for the market, and this was reinforced by significant resources from US aid organisations which recruited the support of local leaders in Wroclaw (and other places) through all expenses trips to the US. However, the gap between the enabling myths and reality of the market in the workplace has led to conflict and contest. It is perhaps not surprising that workers should see something paradoxical in being told that the benefits of the market economy included redundancies and the contraction of employment in their workplaces. This explains why foreign direct investment has been most contested at the level of individual firms and why creating consensus in the workplace has been problematic and complex.

At the level of workplace radical institutionalism problematises issues related to social control within firms where the establishment of control and hegemony is not automatic.
As we saw in the previous section, in CEE a shift in collective understanding was necessary as the old legacies were deemed to be incompatible with the new industrial atmosphere, both at

the level of the local economy and within individual workplaces. Notions of worker participation, full employment, communalism and collective provision had to be eviscerated and replaced with a set of enabling myths that related to quality, individual responsibility, empowerment, and management prerogative and which were reinforced by individualised systems of remuneration. Although some representatives of Solidarity had shown a willingness to act as a conduit for this set of ideas, on the whole trade unions were viewed by managers as repositories of these unsuitable informal institutions which led to the view that workers organisations should be relegated to a peripheral role in the new institutional architecture.

Circuits of intellectual capital were necessary across national boundaries to introduce and disseminate these enabling myths, and agents responsible for the transfer of these new discourses included participants in aid initiatives from foreign national and local governments, both foreign and domestic consultancies and senior managers of foreign firms. Some of these new workplace institutions were obtrusive and embedded in the transfer of packages relating to accounting, financial control and human resource management. Unobtrusive methods to instill particular collective understandings included the careful selection of Polish managers who were deemed to be more receptive to change, and inter-firm networking to reinforce a general set of ideas relating to competitive practices.

Diverse methods of instilling new habits of thought and collective understandings were reflected in the different sets of enabling myths deployed by firms. Volvo identified local agents who were receptive to the new institutions and company culture and used their tacit knowledge from the locality to socialise shop floor employees. In this case the enabling myths of 'people centred working', 'inclusion', 'teamworking' and the use of familial metaphors were not actively resisted, but neither were they absorbed by all workers. While Volvo attempted to get employees to internalise culture, ABB used a more obtrusive and coercive set of enabling myths, centred on 'internal competition', 'cost centres' and codified practices rather than attempting deeper socialisation.

7.4 RETHINKING THE EMBEDDEDNESS OF FIRMS

An important finding of the research was that while the transformation of the Wroclaw regional economy could be considered relatively successful in terms of inflows of foreign investment, privatisation processes and below average employment, the impacts of foreign firms were highly differentiated. There is nothing original about the suggestion that the collapse of communism in CEE has opened up new terrains on which TNCs could map their strategies in the context of an intensification of competition. However, in order to gain a more nuanced understanding of the qualitative and quantitative linkages of incoming firms, the study examined flagship investments through the lens of structural, cultural, cognitive and institutional influences on the embeddedness of firms.

Evolutionary accounts were criticised for understating the importance of exogenous factors in framing the context of local strategies. It was argued that influences on the structural embeddedness of firms needed to be understood in order to gauge the degree permanence of a firm's operation in a locality, for example. However, firms did not react passively to sectoral imperatives, because the corporate culture of individual firms included corporate strategies for dealing with the radical uncertainties of competition. One important finding that has far reaching implications for existing firms in CEE and former SOEs without foreign investment, is the way in which western TNCs have fundamentally altered the competitive conditions for indigenous firms.

One deeply embedded enabling myth was that foreign investment through the market mechanism would not only inject finance and know-how into recipient firms, but would provide a stimulus for other indigenous firms to become more competitive. One finding of this study was that SOEs that were national icons, were only able to restructure successfully with an injection of the financial and managerial resources of foreign investors. While Rokita, Jelcz and Polar were able to make incremental changes they lacked the financial economies of scale and accrued learning of western firms that would make them competitive in comparison with established TNCs, and as consequence at the time of writing they all faced uncertain futures.

In contrast to the view that suggested that the new corporate strategies and trends in organisational change that characterised TNCs offered better development possibilities for

LDRs, the findings pointed to firms as being coercive by exerting both obtrusive or unobtrusive control. More sanguine accounts point to TNCs becoming less hierarchical thereby increasing the autonomy of subsidiaries and offering better opportunities for linkages in the locality. The research findings suggested a different interpretation of autonomy. Whatever the firm specific enabling myths the trend towards costs centres, internal markets and benchmarking, meant that the parameters for manoeuvre were reduced to cost reduction and increases in efficiency which resulted in inter-firm and inter regional competition.

7.5 POLICY CONCLUSIONS

Providing an institutional fix for firms and regions in CEE has been a lucrative business for western consultancies and there is no intention here to reshuffle the pack of supply side solutions that have been exported from the West. Although evidence that regional institutions that are coherent and congruent can mediate between the global and local by successfully attracting and retaining FDI is not strong, this is not to dismiss the importance of human agency in changing economic and political trajectories. Indeed history testifies that in Poland communities and workers had a dramatic impact on the institutional landscape by rising up against and eventually dismantling the communist regime. However, this does not represent the end of history, and in the face of globalising tendencies underpinned by neoliberal ideas, an alternative scenario is to build participatory structures at the level of the locality which can evolve a different agenda. In the light of a legacy of passivity with regard to formal institutions, ruling by elites and an embryonic civil society - this is a daunting task. In Polish workplaces trade unions need to be rebuilt to effectively defend wages and conditions of work. However, the role of OPZZ (the All Poland trade union organisation) is tainted and constrained by its stalininist past, while Solidarity is compromised by advocating the virtues of the market on the one hand at the same time as trying to mitigate its effects on the other. It was certainly not the case that workers were no longer interested in trade unions. Women cashiers in Tesco, for example, were vociferous in arguing the need for a vehicle through which to redress their grievances over wages and working conditions.

Therefore it would be easy but disingenuous to add to the extensive list of institutional fixes that have been posited by consultants, European governments and academics. Stronger and more coherent local governance in Wroclaw and more proactive trade union organisation may be able to counter balance the degree to which foreign investment can bend institutions in the locality and the workplace. However, where conditions have been negotiated with incoming firms, foreign investors have shown themselves to be adept at complying nominally, but without having to deviate from their original agenda. While this is only one of many pieces of work that points to the immense leverage of TNCs, the contribution of these research findings is to provide a more detailed account of the 'institution bending' behaviour of firms as they enter and operate in new contexts.

It is argued here that the developmental potential of transforming regions in CEE cannot be divorced from wider debates. Following Dugger (1989, 2000) the radical institutionalist rejection of the automatic benevolence and social equilibrium of the market imply support, not for minor institutional changes, but a radical break with the free market status quo. Recent suggestions of a 'third way' in this view are regarded as only a minor and incremental adjustment to the relationship between the private and public sector rather than offering a new paradigm. Therefore sliding between various configuration of the market and hierarchy spectrum does not constitute a sufficiently strong recipe for tempering the power of TNCs.

Powerful enabling myths perpetuated at all levels, from the global to the workplace have appeared to close down serious consideration of other starting points about the organisation of economic activity. Economic agents are seen to be motivated by individual gain, therefore individuality is the order of the day and collectivism relegated to margins. Enabling myths have tried to encourage societal acceptance of unemployment, exclusion and inequality in CEE as well as elsewhere, as blips of economic change, rather than inevitable outcomes of markets. An encouraging sign, however, over the last two years has been a widespread questioning on a global scale of the enabling myths of the WTO and the World Bank, whose ideas are now seen by diverse groups in many different countries, as a fig leaf for the designs of powerful multinationals.

There is no suggestion here of any return to the oppressive and distorted economies that existed pre-1990, neither is there much sympathy for the state led industrialisation view which is also top down and constructivist. However, to secure long term regional development, the community in Wroclaw need to go beyond a zero sum game, which pits localities against each other and where the only strategy is to compete for a slice of mobile capital. Similarly workers need to take a much wider view of the corporate strategies of capital to reduce the power of TNCs in playing off subsidiaries against each other, and European Workers Councils may be a forum for such discussions. Further, the distributional effects of foreign investment need to be taken seriously in formulating local economic and social policy. As we have seen different social groups have had very varied experiences of transformation in general and foreign investment in particular, and therefore issues related to gender, young and old workers, and the sub-regions need to be central to the debate. Therefore local democracy needs to be inclusive and involve groups that are marginalised and/or demoralised by transformation. The growth of the far right (as well as groups to the left) in Europe reflects an increasing disillusionment with the ability and willingness of mainstream politics and parties to address issues relating to some sections of the population.

7.6 FUTURE RESEARCH AGENDAS

Such has been the velocity of change that examining the role of foreign investment in a transforming economy has been to research a moving target. While restructuring is always an ongoing process, the transformation of previously planned economies have seen broad changes that were implemented in western economies over several decades condensed into a much shorter time frame. In terms of research there are four possible future agendas that emerge from this study.

The first research area would be further tracking of SOEs in the Wroclaw region, that are in a transitional stage of change, in that they are either part of a National Investment Fund (Rokita and Wrozamet), have minority investment by a foreign firm (Polar) or are wholly Polish owned (Jelcz). These firms are in a transitional stage because ownership arrangements are hybrid and the privatisation process indirect. The purpose of the study would be to refute or support the strong claim made in the previous section, that the survival of such firms is only possible with unambiguous ownership by a foreign investor. Further, it would allow a deeper investigation of the extent to which restructuring processes have been helped or hindered by the persistence of informal institutions carried over from the previous regime.

The second possible area of investigation would be to study the rebuilding of regional governance in the context of the new and enlarged Dolnoslaskie *voivodship* established in

January 1999. The particular focus would be to examine whether these new arrangements constitute a more successful recipe for coherent regional development, or whether they merely represent a new arena in which entrenched interests will play out their agendas. The enlarged area would allow the comparison of sub-regions with different industrial bases and governance structures. Walbryzch and Legnica are monocultures based on declining heavy industries which present a greater challenge for restructuring and economic development than the diverse economy of the former Wroclaw *voivodship.*

The third way in which this study could be built upon would be to open the 'black box' of a larger number of firms to examine the relationship between the specific enabling myths deployed through different corporate strategies and their impacts on qualitative and quantitative aspects of employment within the firm. This study focused on the two contrasting examples of Volvo and ABB and how they instilled a new set of collective understandings, a wider study may produce a richer variety of strategies with varying impacts in the workplace.

The final area of research is perhaps the most important and certainly the most challenging and emanates from Dugger's definition of radical institutionalism;

> Radical institutionalism is a processual paradigm focused on the changing direction of cultural evolution and changing the outcome of social provisioning in order to promote the full participation of all (Dugger, 1989: 126)

It has been argued here, in line with Weisskopf (2000), that the seeds of change should come from below in workplaces, and in communities defending collective and non-marketised provisions and in participatory systems of local governance. The point of departure from other accounts that have advocated a resurgence of localism is a recognition that foreign investment offers very limited possibilities for regional development, and further that even some very modest demands may bring communities into conflict with vested and powerful interests. Rather than perpetuating the enabling myths which justify the economic and political power of the few, central to the research agenda is the search for provisioning institutions which are emancipatory in both a material and ideological sense for the vast majority people. This suggests that the challenge for radical institutionalism is twofold. First, it needs to develop a non-teleological, but more coherent and all embracing theory that goes beyond the set of analytical concepts developed in this study. Secondly, radical institutionalism needs to focus on the evolution of policy and participatory governance that provides a serious challenge to the enabling myth of the passivity and inevitability of the market. At the time of writing this study, an alternative analysis of and possible policies for economic change and development in Less Developed Regions is not an indulgence. Failure to engage with the increasing numbers of the population in Western and Eastern Europe, who are left disenfranchised and marginalised by the current economic arrangements leaves a vacuum that could be filled by dangerous and divisive ideas which are currently gaining credence in some quarters.

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APPENDICES

APPENDIX 1

FIELD WORK

This section discusses the formulation and execution of the fieldwork. The research for this thesis is also placed in the wider context of collaborative projects that were undertaken between 1993 and 1995 and those conducted in parallel to the interviews for this project which took place between 1997 and 2001.

Extensive knowledge of the transformation process in general and the restructuring of localities and workplaces in particular had been gained between 1993 and 1995 during a study of the Polish city of Krakow. A visit funded by TEMPUS to facilitate exchange between academics in Western Europe and the newly transforming economies of Central and Eastern Europe led to initial contact with academics at the Krakow Academy of Economics. Between 1993 and 1995 a small Nuffield Grant (£5,000) funded collaborative research with colleagues from the Krakow Academy of Economics. This work involved documenting broad economic and institutional changes in the locality and critically examining policies that had been posited by consultants for its transformation. The work also involved case studies of three key workplaces: the giant Huta Senzhimira steel plant and its adaptation in the face of increased competition in the international market; the ZPT tobacco factory which had been bought by the US Philip Morris TNC; and the Wawel chocolate factory which had rejected offers by TNCs in favour of a worker-management route to privatisation. Insights gained in this period included the complexities and contested nature of the privatisation process and the key role of Solidarity as both a political party and a trade union in shaping transformation at national and workplace level, and the role of both formal and informal institutions. This research formed the basis of a book (with Dr Al Rainnie) 'Restructuring Krakow: Desperately Seeking Capitalism' which was published in 1996.

In the course of researching the restructuring of the confectionary sector, which has been the focus of interest and intense activity by TNCs I had visited the Cadbury factory in

Wroclaw. The Managing Director was English but with Polish parents. He had a deep knowledge of the local economy and was very open about his perceptions of the transformation process and the restructuring of firms. This interview suggested that Wroclaw would be a suitable empirical focus for the thesis due to its diverse economy with flagship State Owned Enterprises and relatively high levels of foreign investment.

The first stage of the fieldwork for the thesis in 1997 was to conduct preliminary interviews in several of the key foreign investments in Wroclaw on the basis of semi-structured interviews in 1997. Additional interviews were conducted with key agents in institutions, particularly local government. While these interviews yielded useful information regarding the economic impacts of foreign investment informal discussions highlighted other issues regarding the way in which crossing borders was a highly political and negotiated process. Managers of foreign investment were concerned with bringing about a process of 'institution bending' first, in the sense of needing a set of formal institutions to support their activities, and second to bring about attitudinal changes in Polish managers and workers.

As a consequence of the insights gained in the preliminary interviews the second stage of the fieldwork in 1998 was planned to reflect non-economic as well as economic aspects of embeddedness. The semi-structured interview schedule was designed to interrogate these aspects more thoroughly (see Appendix B). Interviews were also held in the UK where appropriate, which focused on managers responsible for negotiating the investment and overseeing the early stages of the process. These interviews at the level of top management, particularly in Cadbury, BOC and Tesco yielded rich insights.

Preliminary analysis of transcribed tapes and fieldwork notes (where taping was not possible) provided extensive material on economic and institutional embeddedness. However, the material on the cultural and cognitive aspects of embeddedness was less satisfactory, because the richness and quality of information between firms was highly variable, particularly where only one interviewed had been agreed to.

The third stage of the fieldwork in September 1999 and April 2000 was therefore to investigate cultural and cognitive embeddedness more rigorously on the basis of two case studies. Volvo and ABB were selected on the basis that although emanating from the national origins, they represented a good contrast of corporate culture. The main criterion, however, was having excellent access to managers at both middle and senior levels of the companies, and also across a spread of different functions. In both firms interviews were carried out with the CEO, financial director, HRM manager, supply manager, production manager and trade union representatives. This yielded important information regarding key facets of the firms operations. Carrying out interviews with a larger number of workers and managers enabled an interrogation about the coherence of corporate culture, consensus and commitment and the mechanisms used to 'bend institutions'.

Parallel to stages two and three of the research, interviews were carried out with institutional actors in the locality at various echelons of local government, development agencies and chambers of commerce. Interviews in State Owned Enterprises were generally carried out in Polish with a translator. While the translators had an excellent and nuanced grasp of English and the project aims, the translation of certain concepts and the filtering aspect meant that the material gathered was mainly used to elaborate the competition impacts of foreign investment. Reticence to stray from official information meant that it was hard to engage in discussions that related to cultural and cognitive embeddedness.

During the period 1997 to 2001 I was involved in three externally funded projects or initiatives which involved further visits to Poland and enabled me to deepen my understanding of the research questions and issues investigated in the thesis.

First, I was responsible for the Polish fieldwork as part of a large comparative project (Poland, UK, Italy, Slovakia) with colleagues from the universities of Durham and Sussex, which was funded under the ESRC's 'One Europe' initiative. The sectors studies in the project included vehicles, food retailing and chemicals, which enhanced my knowledge and understanding of sectors from which several of my key case study firms were drawn. The comparison of the Dolnoslaskie (of which Wroclaw was the capital) and Slaskie meant that further insights were gained regarding the specificity of governance in Wroclaw. Ongoing contacts with Polish collaborators and in particular Dr Bolek Domanski from the Jagiellonian University in Krakow, a leading economic geographer specialising in foreign investment, was invaluable in developing and enriching some of the key ideas in the thesis.

A second project on 'Women, Work and Transformation' funded by a small Nuffield Grant and conducted with Dr Alison Stenning (University of Birmingham) focused on the contraction of women's jobs in SOEs and new employment opportunities that were opening up in foreign food retailers. Extensive interviews were carried out with women workers from these two sectors which yielded rich information on the differentiated aspects of transformation and the quality of new 'flexible' jobs. A final set of interviews were carried out with teachers and nurses who had been involved in militant action (and in the case of nurses the formation of a new union) provided insights into the changing nature of workplace organisation, particularly in challenging the enabling 'myth of the market'. Collaboration with Professor Wieslaw Kozek (Warsaw University), a leading expert in Polish industrial relations helped me to develop a more nuanced understanding of the institutions of workplace organisation.

Finally, funding from the ESRC to run a seminar series on 'Changing Work and Employment in Central and Eastern Europe and Russia' with the universities of Nottingham, Sussex and Warwick provided good contextual and comparative material for understanding formal and informal aspects of work in a comparative setting.

APPENDIX 2

LIST OF INTERVIEWS

FIRMS

FOREIGN INVESTMENTS

ABB Dolmel (Drives)

President of Solidarity

Vice President of Solidarity

ABB Instal

President of Company

Adtranz

President of Company

UK consultant on two-year contract

Production Manager

Representative of Solidarity

Armstrong

Managing Director

BOC

Vice President (UK)

Business Development Manager – Central Europe (UK)

Operations Manager

Deputy Director Production and Distribution

Cadbury

Regional Development Director (UK)

Managing Director

Cargill

Operations Manager

Managing Director

Cussons

Chief Executive Poland

GKN

Managing Director

Human Resources Manager

Tescos

Director of International Devlopment (UK)

CEO Poland

Store Manager

Supply Manager

Human Resource Manager

Vitapolymer

Managing Director

CASE STUDY FIRMS: ABB AND VOLVO

ABB Dolmel (power generators)

General Affairs Manager

Human Resource and Administration Manager

Financial Controller

Supply Manager

General Plant Manager (Production)

Volvo

General Director

Financial Manager

Human Resources Manager

Head of Purchasing and Sourcing CEE

Production Manager

Solidarity representative

STATE OWNED ENTERPRISES

Polar

General Manager

Marketing Director

Human Resource Manager

Director of Production and Supplies (member of Board)

President of Solidarity

Member of Export Department

Jelcz

Director of Restructuring

Human Resources Manager

Financial Director

President of Solidarity

Rokita

Strategic Planning and Development Director

Business Development Manager

Consultants

Know How Fund (UK)

Otrek

Managing Director

Vice President

Arthur Andersen

Manager

Ernst and Young

Director

INSTITUTIONS

Wroclaw Municipality

Director of 'Wroclaw 2000 Plan'

Director of Economic Initiatives

Voivode

Governor of the Voivode

Department of Privatisation

Department of Foreign Investment

Wroclaw Regional Development Agency

Organisations

British Honorary Consul

German Consul

British-Polish Chamber of Commerce
(Information Officer)

British-Polish Chamber of Commerce
(ex-President)

Lower Silesian Chamber of Commerce

Solidarity Trade Union

President of Regional Board
(also member of National Commission)

APPENDIX 3

INDICATIVE INTERVIEW SCHEDULE -

SENIOR MANAGERS IN PARENT COMPANIES

Introduction

Purpose and parameters of research

Confidentiality

Establish time limit of interview

Establish role of senior manager/s in organisation

General background

Confirm information regarding structure and history of company as set out in preparatory field notes drawn from company publications and sources.

Internationalisation and location

How does the decision to locate in Poland fit with the internationalisation strategies of the company?

To what extent was the decision motivated by low costs/ market access/ international competition?

Why was Poland chosen rather than other economies in Central and Eastern Europe?

Why was Wroclaw chosen rather than another location in Poland?

When, where and by whom was the decision taken to invest?

Does this investment represent an addition to the firms capacity or a replacement to production elsewhere?

The process of acquisition (Brownfield)

How did you find the firm you wanted to buy? Who was proactive (your firm, locality of Wroclaw, Polish national ministries)?

Which individuals and departments were responsible for negotiating?

Who were the key actors in Poland in negotiating the investment? (National ministries, individual national politicians, individual local politicians, bureaucrats, advisors)

What were the key issues for the host country negotiators? (Price, competition in the sector, technology transfer, scale of investment and future commitments, ecurity and conditions of employment)

What difficulties, if any, emerged in the process of the negotiations?

What was the time scale between the start and the conclusion of the negotiations?

How did the speed compare with other international acquisitions?

The process of acquisition (Greenfield)

Why was the greenfield rather than the brownfield investment route chosen?

How did you find the land?

Where does the responsibility lie within the firm for a) seeking greenfield sites b) executing the building of the factory c) the start of production?

Which local agents helped or hindered bureaucratic procedures?

Which local agents were most useful and how did you make contact with them?

The role of the Wroclaw region

What contacts have there been with the following institutions in the area?

Formal institutions: voivode, municipality, gmina

Other organisations: local or regional agencies, consultants, personal contacts

Firms: international firms, State Owned Enterprises, SMEs

Acquisition (in the case of brownfield)

What was the nature of the acquisition (capital privatisation or joint venture)

Why brownfield?

What was the scale of the acquisition? Value of investment?

Ownership structure

In negotiations what was the role of a) the Workers Council and b) the incumbent management?

Was there any agreement on employment levels, future investment levels, social provision

Were Polish managers retained? If so, why? Did they bring important information about the firms and the market?

Changes and restructuring after acquisition

How would you describe the existing condition of the firm (technology, working practices, managerial skills, health and safety, quality)?

What changes have taken place in: production methods, technology, work organisation, health and safety quality, marketing, HRM, accounting and logistics;

What investment has there been in new plant and machinery (value and nature of investment)?

What changes have there been in pay and conditions of work?

How has the labour force changed (part time/full time, by function, turnover)

What changes have taken place in social provision (nursery, health, leisure, housing) and what is the current social provision?

What social provision is there in the firm?

What have been the main changes to management structures?

To what extent is there a company blueprint for restructuring acquisitions?

How far are changes locally adapted?

Was there a process of consultation with workers and incumbent management?

What aspects of the restructuring programme were difficult to implement?

What has been the response of workers and incumbent management to the changes that have been implemented?

Integration with parent company?

What is the relationship between the subsidiary and the HQ?

What is the relationship between country HQ and the Wroclaw subsidiary?

Which functions does the subsidiary have responsibility for? Is this likely to change in the future?

What information is reported to HQ and with what frequency?

What elements of the firm's organisation are distinctly Polish.

If I walked into a plant in any other country what would be different?

Which functions are decentralised and which does the firm have responsibiliy for?

Where does Research and Development take place?

What development and training takes place and where? What are the main ways in which Polish managers are inducted with the company

What levels of personnel are trained?

Supply chains

What raw materials/ components are sourced locally/nationally/globally? (as a percentage of the value of inputs, if possible)

To what extent has the above changed since the firm's arrival in Poland?

How might these arrangements change in the future?

What do you perceive as the problems and advantages of sourcing locally?

Where local suppliers have been used has assistance been given to improve the efficiency or quality of their operation?

The Wroclaw Locality

Do you have contact with the voivode, gmina, development agency?

What is the nature of these contacts?

Do they provide anything in the way of information, eduation training

Is there support that would be useful that is currently not being provided?

Do you have contacts with business organisations in the region? Chambers of Commerce?

What contact do you have with other foreign investors in the region? Are there issues that you cooperate over?

General Assessment

To what extent would you consider the investment to be a success?

What aspects have proved between than anticipated?

What do you regard as disappointments or ongoing problems?

The Future

How do you see the future developing in Wroclaw? Poland?

Is the company considering other 'emerging markets' as sites for investment?